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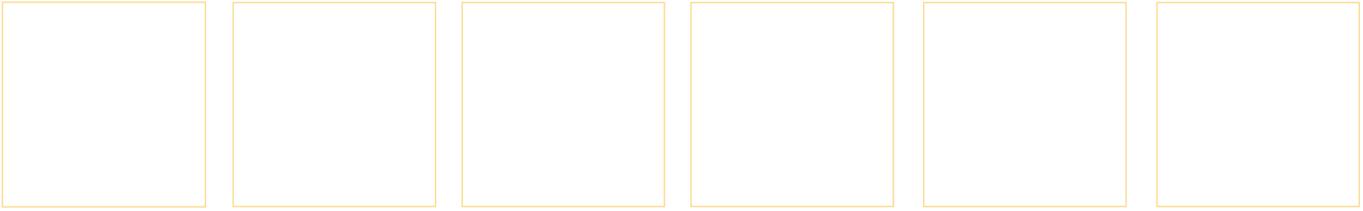
## *Encouraging the Employment of Refugees Through Trade Preferences*

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**Key words:** migration, refugees, integration, trade preferences

### **Abstract**

Trade preferences provide a potential policy tool for supporting the integration of refugees in countries of first asylum. Thus, the EU-Jordan Compact, agreed following the London conference of February 2016 on 'Supporting Syria and the Region', eased the rules of origin for Jordanian exporters employing a minimum share of Syrian refugees. The debate on the use of trade preferences to encourage the labour-market integration of refugees has been reactivated by a similar proposal made recently by Turkey in the WTO context. The experience with the Qualifying Industrial Zones initiative, launched in 1996 by the US for Egypt and Jordan, suggests that trade preferences, if properly designed, can be a powerful instrument for generating export growth and employment. However, both this experience and the so far disappointing impact of the EU-Jordan agreement on rules of origin show the limits and drawbacks of this type of scheme. This Policy Brief discusses the conditions under which trade preferences can prove an effective instrument for refugee integration and puts forward some concrete policy recommendations.



## The EU-Jordan Scheme: Main Features and Performance

The scheme agreed between the EU and Jordan, which entered into force on July 2016 and has an initial duration of 10 years, grants a more favourable treatment regarding the rules of origin (RoO) to exports from Jordanian companies employing a minimum share of Syrian refugees and based in one of eighteen designated Special Development Zones (SEZ) and Industrial Areas.<sup>1</sup> In order for a company to benefit from the scheme, Syrian refugees must represent at least 15% of its workforce in the first two years of application, and at least 25% of it thereafter. Regarding the eligible products, the proposal is limited to a list of industrial goods. The agreed relaxation of the RoO reduces the local content required for a product exported by Jordan to enjoy preferential access to the EU market from 60% to 30% of the total export value.

The EU has also agreed that if Jordan meets its own target, announced at the London conference, of formally employing 200,000 Syrian refugees across the economy, as measured by the number of work permits issued to Syrian refugees, it will consider extending the scheme to the entire Jordanian economy.

The EU was initially reluctant to agree to this scheme because it represented a departure from the Pan Euro-Mediterranean system of diagonal cumulation of RoO, enshrined in the Convention signed by 23 European and Mediterranean countries in 2013. This exceptional Jordan-EU scheme has been justified on the basis of the humanitarian and political imperative related to the Syrian refugee crisis. This explains its temporary nature and restrictions in terms of products and place of production.

The main aim of the RoO scheme is to encourage the labour-market integration of Syrian refugees in Jordan. It is hoped that this will help ensure decent living conditions for Syrian refugees and ease pressure for their secondary migration, while

facilitating their return to Syria once the political situation there allows it. The EU considered offering a similar scheme to Lebanon, but it appears that the Lebanese authorities were more reluctant, reflecting Lebanon's special political context.

Although, admittedly, the scheme has not been in effect for long and it is, therefore, too early to make a conclusive assessment, its results have been, to date, relatively disappointing. Indeed, by the end of October 2017, only eight factories, employing a total of 145 Syrian refugees, had obtained the authorization to export under the RoO scheme.<sup>2</sup>

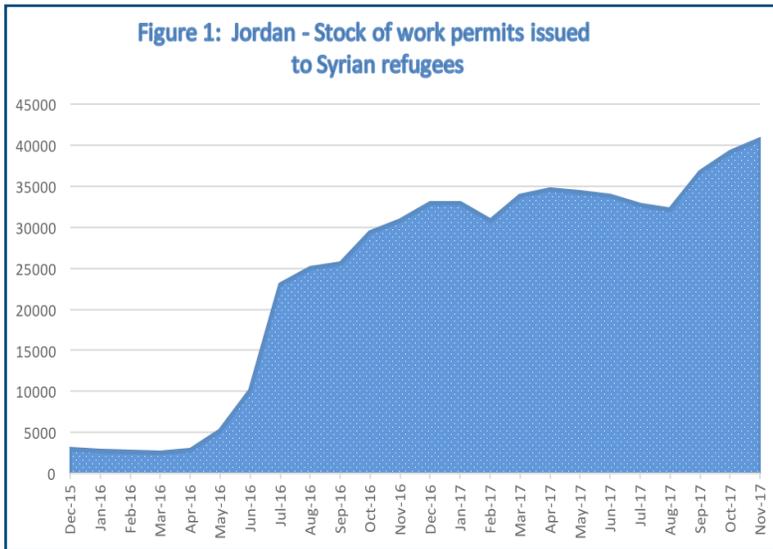
The main obstacles the scheme has encountered are the following: first, there is a lack of companies with the experience, the marketing networks and the competitiveness for exporting to the EU the type of products that can benefit from the scheme. Second, in some cases their products do not meet EU technical standards for manufactured goods. Third, there is a lack of Syrian workers willing to work in the eighteen designated areas. Indeed, Syrian refugees fear losing their refugee status and/or the donor support associated with it. Also, they often lack an appropriate training profile as they tend to have professional experience and competence in sectors such as agriculture, construction and home services, which are not covered by the RoO deal. Finally, Jordan continues to apply a quota system that restricts the share of foreign workers Jordanian companies are allowed to employ.

Though there is a trend towards an increase in the number of work permits issued to Syrian refugees in the economy as a whole (see Figure 1), the large majority of the Syrian refugees working in Jordan continue to do so informally.<sup>3</sup> And despite the positive trend, Jordan is unlikely to meet its announced objective of issuing 200,000 work permits for Syrian refugees.

1. 'EU-Jordan Partnership Priorities and Compact', Annex to the Decision No. 01/2016 of the 12<sup>th</sup> EU-Jordan Association Council of 10/June/2017.

2. 'Simplification of the Rules of Origin with the European Union. Annual Report', Ministry of Planning and International Cooperation of Jordan, October 2017.

3. The situation is similar in the other main countries in the region hosting Syrian refugees (Turkey, Lebanon and Egypt), where most refugees that work do so informally.



Source: Estimates based on data provided by the ILO and the Jordanian Ministry of Labour

### A Comparison with the US QIZ Initiative

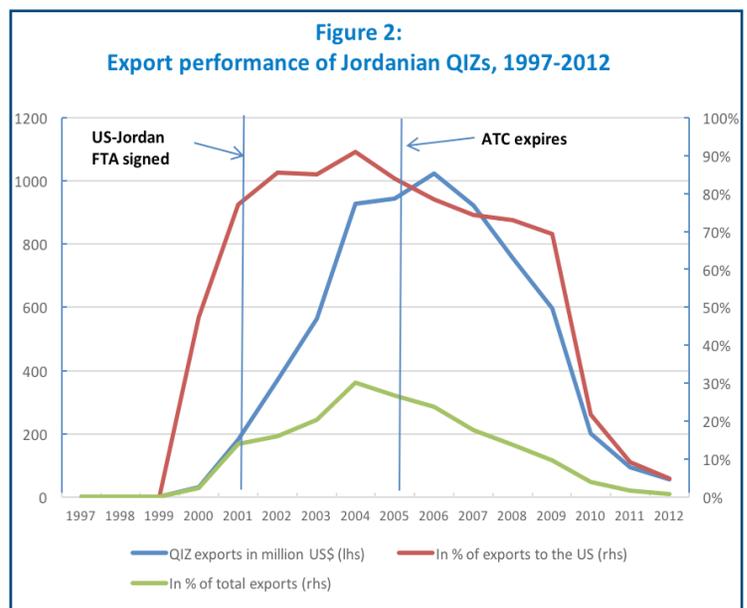
The disappointing impact until now of the RoO scheme contrasts with the rather successful experience Jordan had with the Qualifying Industrial Zones (QIZ) initiative, launched in 1996 by the US. Under the QIZ programme, the US granted duty-free, quota-free access to Jordanian or Egyptian exports co-produced with Israel in export-processing zones called QIZs and meeting certain content requirements. This scheme was meant to support the Middle East Peace Process through the promotion of trade between Israel and the two neighbouring countries with which it had concluded peace agreements.<sup>4</sup>

Over the first seven to nine years after the QIZs were introduced in Jordan, QIZ exports to the US boomed, accounting, in the years 2001-2005, for 85-90% of Jordan's exports to the US and for 25-30% of all Jordanian exports (see Figure 2). Investment flooded into the QIZs, particularly from Asian investors seeking to

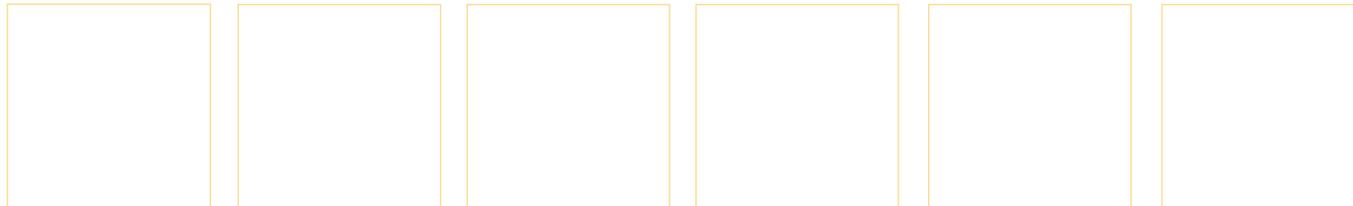
4. See 'The Socio-Economic Implications of the Qualified Industrial Zones in Jordan', by Ibrahim Saif, 2006; and 'Qualifying Industrial Zones (QIZ) in Jordan and Egypt: Background and Issues for Congress', Congressional Research Service, US Congress, August 2013, CRS Report R43202, pp. 3-4 <https://www.everycrsreport.com/reports/R43202.html>. The scheme also applied to goods produced in the West Bank and Gaza.

gain a competitive advantage for their apparel exports to the US, which were still subjected to quotas and high tariffs under the WTO Agreement on Textiles and Clothing (ATC). Accompanying the flow of Asian investment into the QIZs was an important inflow of adequately trained and hard-working Asians, from countries such as China, India and Bangladesh. The QIZs allowed to produce at relatively low costs in Jordan, while taking advantage of Israel's existing marketing channels to the United States.

However, this rapid development of QIZ exports proved unsustainable. First, the expiration of the ATC in 2015 (and the associated elimination of textile quotas) weakened the interest of Asian investors in producing apparel in Jordan as a way to access the US market and it also increased competition from emerging market countries in the US. Secondly, the gradual entry into force of the Free Trade Agreement (FTA) concluded between the US and Jordan in 2001, which meant that Jordan no longer had to co-produce with Israel in order to access the US market free of duties, removed part of the attraction of the QIZs. Reflecting these two factors, exports entering the US under the QIZ programme declined after 2006 (see Figure 2).

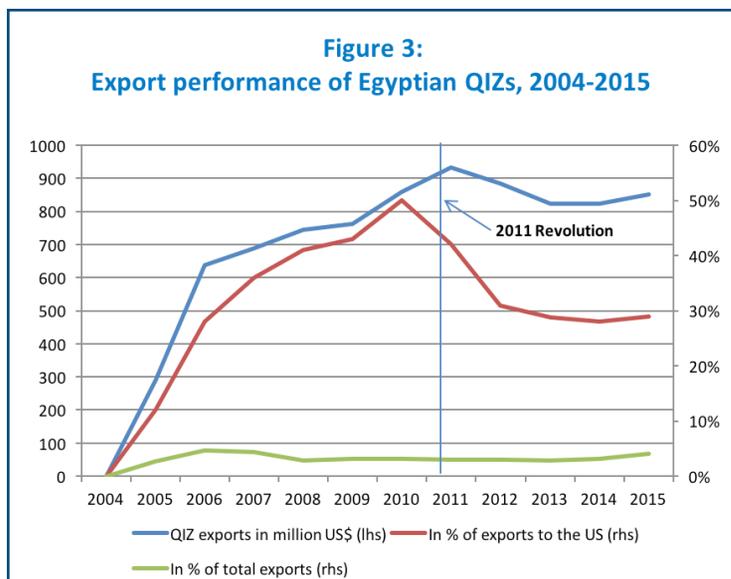


Sources: USITC Dataweb and IMF Direction of Trade statistics.



Moreover, the QIZ programme had a number of serious drawbacks: firstly, the initial hope that the QIZs would help significantly reduce Jordan's high unemployment rate was not met since more than half of the 35,000 to 45,000 jobs created in the QIZs were taken by foreign, mostly Asian workers. This reflected both their better training and experience with apparel production and their willingness to work at low wages, to take on long hours and to put up with very tough working conditions; indeed, most Asian workers lived in the squalid accommodation provided by companies within the QIZs themselves.<sup>5</sup> Jordanian workers were less keen to work under such conditions. Secondly, the QIZs did not contribute much to the diversification of Jordan's export base, nor did they create significant positive spillover effects into the rest of the economy in terms of linkages to domestic suppliers (since an important part of the inputs were imported), the transfer of new technologies or the upgrading of the skills of Jordanian workers. To some extent, the QIZ experience fits into what is sometimes referred to as 'tariff or quota-jumping' investment. After the 'quota-hopping' motivation on the part of Asian firms was gone, much of the investment and job creation was reversed.

Egypt's experience with the QIZ programme, which it joined in 2004, is somewhat different but, by and large, positive.<sup>6</sup> Indeed, Egypt already had a well-developed domestic textile industry and the QIZ programme helped preserve its apparel exports after the expiration of the ATC, which had sheltered its exports to the US through a quota. Egyptian QIZ exports also developed rapidly in the first six years after Egypt joined the QIZ programme, though they subsequently stagnated, reflecting the disruptions



Sources: Ministry of Trade and Industry of Egypt and IMF's DOT statistics.

caused by the 2011 Revolution (see Figure 3). And in contrast to Jordan's QIZs, most workers in Egypt's QIZs are Egyptian. The US and Egypt are now considering a reinvigoration of the QIZ programme.

Overall, the QIZ programme, despite its drawbacks, contributed significantly to increasing the share of the beneficiary countries' exports in the US market, generating jobs and investment, a view that is also supported by some cross-country empirical studies.<sup>7</sup>

### Potential Use of Trade Measures for Supporting Refugee and Migration Policy

The experience with the QIZs underlines the powerful export and employment generating effects trade preferences can have, if well designed and supported by an appropriate context, and, therefore, their potential as a tool for refugee and migration policy. The problems witnessed with the QIZs in Jordan, however, and the so far disappointing impact of the EU's RoO scheme for Jordan should also help us to draw some lessons: first, beneficiary countries must be in a position (competitiveness, marketing

5. For a critical report on working conditions at the Jordanian QIZs, see National Labour Committee, *U.S.-Jordan Free Trade Agreement Descends into Human Trafficking and Involuntary Servitude*, 2016.

6. See, for example, Refaat, 'Assessing the Impact of the QIZ Protocol on Egypt's Textile and Clothing Industry', ECES Working Paper No. 1113, Cairo, Egyptian Center for Economic Studies, 2006.

7. See, for example, A. Carter, Y. Gong and J. B. Nugent, 'Measuring Trade Advantages of the Qualifying Industrial Zones Programme of Jordan and Egypt Offered by the United States for Having Signed Peace Treaties with Israel', *Topics in Middle Eastern and African Economies*, Vol. 17, Issue No.2, May 2015.



channels, etc.) to exploit the opportunities offered by the trade preferences. Second, refugees must have a training profile that matches the one required by the firms benefiting from the trade preferences. Third, wages and labour conditions in the sectors covered by the trade preferences must be sufficiently attractive for refugees. Moreover, refugees should be reassured that their acceptance of formal jobs will not endanger their refugee status, or some of the humanitarian assistance they receive. Last but not least, legal impediments to the employment of refugees should be removed.

The possible use of trade preferences to alleviate the refugee crisis in countries of first asylum was mentioned in the Strategy for Global Trade Growth agreed by the G-20 in July 2016, as well as in the European Commission's Communication of 2016 establishing a new Partnership Framework with third countries on migration.<sup>8</sup> And it has been further highlighted by Turkey's recent proposal to WTO members to grant preferential treatment to certain exports of countries hosting large number of Syrian refugees provided that they are manufactured by companies employing refugees. In a letter sent on 17 August 2017 to seven key WTO members, the Turkish minister of finance proposes that the WTO should agree to grant those preferences, while waiving the obligation under the WTO's Most Favoured Nation (MFN) principle to extend the same preferential treatment to similar products exported by other WTO members. The proposal has so far been acknowledged cautiously by the WTO countries, but it has contributed to bringing to the fore again the discussion on the possible use of trade policy measures to encourage the labour-market integration of refugees.

The Turkish proposal would have to be adopted by consensus by the WTO Members under Article IX of the Marrakech Agreement, which allows for

waivers of certain obligations (including the MFN provisions) under exceptional circumstances, such as a humanitarian crisis. But, in this case, the preferential schemes must be temporary, as required by the Marrakech Agreement. This could prove a significant limitation as refugee crises have often proved to be long-lasting.

A variant of the Turkish option would be to ease the standard Generalised System of Preferences (GSP) or the GSP+ systems for countries hosting large population of refugees and for exports produced employing a minimum share of refugees. This could be done in a coordinated manner by developed countries adhering to the GSP/GSP+ system, or by those of them that wished to do so. As noted above, the Commission's Communication on the Partnership Framework on Migration proposes that this matter be looked into at the next evaluation by the Commission of the GSP+, which is due in December 2017.

Finally, the EU could consider agreeing with its partners under the Convention on Pan-Euro-Mediterranean Rules of Origin of 2013 on a coordinated easing of the RoO for exports produced by countries (other than EU and EFTA countries) which have signed the Convention and which host large number of refugees. The scheme could focus on labour-intensive sectors and exporting firms would have to demonstrate, under a certification process, that they are employing a minimum share of refugees. This option would not require a consensus at the WTO. Indeed, since all these countries have a network of preferential trade agreements, it could be agreed bilaterally without requiring a WTO waiver of the MFN clause, as the EU has done for Jordan.

These alternatives are not mutually exclusive and some of them could be combined. But in order to make them more powerful and effective, the international donor community should support them with technical and financial assistance aimed at easing the constraints witnessed in preferential schemes such as the QIZs and the EU-Jordan RoO scheme.

8. The Communication suggests making migration cooperation a consideration in the forthcoming evaluation of trade preferences under the GSP+. See p. 9 of 'Communication from the European Commission to the European Parliament, the European Council, the Council and the European Investment Bank on establishing a new Partnership Framework with third countries on Migration,' COM(2016) 385 final, 7 June 2016.

## Author's Biography

Heliodoro Temprano Arroyo is an EU Fellow at the RSCAS of the European University Institute. He is an Adviser at the Directorate General for Economic and Financial Affairs of the European Commission, an institution where he has occupied different managerial positions. He has also worked in the European I Department of the IMF, as well as in the Research Department of Banesto, a major Spanish bank, where he was Deputy Director for International Monetary Analysis. A Spanish national, he holds degrees in economics from the Universidad Autónoma of Madrid, the University of Sussex and the Universidad Alcalá de Henares. He has published on international macroeconomics, public finance, monetary integration and transition economics.

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