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RSCAS 2018/42  
Robert Schuman Centre for Advanced Studies  
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Promoting Labour Market Integration of Refugees with  
Trade Preferences: Beyond the EU-Jordan Compact

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European University Institute

**Robert Schuman Centre for Advanced Studies**

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EUI Working Paper **RSCAS** 2018/42

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ISSN 1028-3625

© Heliodoro Temprano Arroyo, 2018  
Printed in Italy, July 2018  
European University Institute  
Badia Fiesolana  
I – 50014 San Domenico di Fiesole (FI)  
Italy  
[www.eui.eu/RSCAS/Publications/](http://www.eui.eu/RSCAS/Publications/)  
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## **Abstract\***

Trade preferences provide a potential policy tool for supporting refugee employment in countries of first asylum. Thus, in the context of the EU-Jordan Compact agreed in 2016, the EU eased the rules of origin for Jordanian exporters employing a minimum share of Syrian refugees. The use of trade preferences to encourage the labour market integration of refugees is consistent with the new, developmental approach to refugee protection advocated by the recent literature and enshrined in the Comprehensive Refugee Response Framework adopted by the UN in 2016. The paper looks at the so far disappointing impact of the EU-Jordan agreement on rules of origin, as well as the experience with two relevant U.S. preferential programmes (the Qualified Industrial Zones initiative for Egypt and Jordan and the African Growth and Opportunity Act) that have generated substantial export growth and employment. It then discusses the conditions under which trade preferences can prove an effective instrument for refugee integration and makes some concrete policy recommendations

## **Keywords**

Migration, refugees, integration, trade preferences.

**JEL classification:** F13; F22

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\* The paper was written while the author was a Fellow at the European University Institute. He is also an Adviser at the Directorate General for Economic and Financial Affairs of the European Commission. The responsibility for the contents of this publication rests with the author, not with the EUI or the European Commission.

The author would like to express his appreciation to Matthias Lücke from the Kiel Institute for the World Economy, for his thorough comments on earlier versions of the paper, as well as colleagues at the Schuman Centre and the Migration Working Group, in particular, Andrew Geddes, Martin Ruhs, Rainer Baubock, Philippe Fargues, Daniela Debono and Katie Kuchminder, for their useful suggestions and their encouragement to pursue this research. He would also like to thank colleagues in the European Commission and the European External Action Service for their valuable input and advice, notably Maria Iarrera from the EU Delegation in Amman, and Monika Hencsey and her team as well as Balazs Kiss, all from DG TRADE. He is also very grateful to Maha Kattaa from the ILO, for the data and insights provided.

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## 1. Introduction

In recent years, a new approach to refugee protection has been gaining ground in the academic literature, as well as among policy makers in international institutions and some donor and refugee-hosting countries. This new approach, advocated by authors such as Alexander Betts and Paul Collier from Oxford University,<sup>1</sup> proposes to overcome the current international refugee system, which is seen as excessively based on refugee-camp based humanitarian assistance, and to move towards a developmental model that encourages economic self-reliance and integration of refugees in the countries of first asylum. This partly reflects the recognition that, for all the talk about the refugee crisis in Europe and other advanced economies, the vast majority of the global population of refugees resides in fact in low- and medium-income countries. This new thinking is fully behind the Compact agreed between the EU and Jordan in early 2016 and is also the guiding principle inspiring the UN's new Comprehensive Refugee Response Framework (CFRR), adopted in September of the same year.

Indeed, in the EU-Jordan Compact, announced at the London conference of 4 February 2016 on "Supporting Syria and the Region," the EU essentially agreed to increase its financial assistance to Jordan substantially and to ease the rules of origin that it applies to Jordanian exports in exchange for commitments by Jordan to facilitate the access of Syrian refugees to formal employment opportunities and to its educational system.<sup>2</sup> The EU package was part of a wider compact (sometimes referred to as the 'international compact' for Jordan) agreed at the London conference, which also entailed an important increase in assistance from other bilateral and multilateral donors.<sup>3</sup> But while the international compact was mostly about financial aid, the EU-Jordan Compact also included, as noted, the EU's commitment to improve the trade regime in order to encourage the employment of Syrian refugees in Jordan. This "rules of origin scheme" was, undoubtedly, the most innovative aspect of the Compact.

This paper focuses on the trade policy component of the EU-Jordan Compact and discusses, more generally, the potential for using trade preferences as a way to promote the economic integration of refugees in developing countries. The debate on the possible use of trade preferences in refugee policy has been further activated by some recent proposals, e.g., the one presented by Turkey in the World Trade Organisation (WTO) last year, to use trade preferences to support the main refugee-hosting developing countries.

This paper is organized as follows: after reviewing in Section 2 the rationale behind the new approach to refugee protection, Section 3 describes the main features of the rules of origin scheme agreed between the EU and Jordan. Section 4 then assesses how effective the scheme has been so far in creating jobs for Syrian refugees, trying to explain why its impact has been in fact much less than hoped for. Sections 5 and 6 shed further light onto the matter by examining the experience with two

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<sup>1</sup> See Betts and Collier (2017).

<sup>2</sup> See Council of the EU (2016). The idea of the Compact was first raised by the Jordanian authorities in the run-up to the London conference in a document that proposed what they called a "holistic approach" to the refugee crisis (see Hashemite Kingdom of Jordan, 2016). In this document, Jordan offered to make more efforts to integrate (at least temporarily) Syrian refugees in exchange for increased financial assistance, trade preferences and political cooperation.

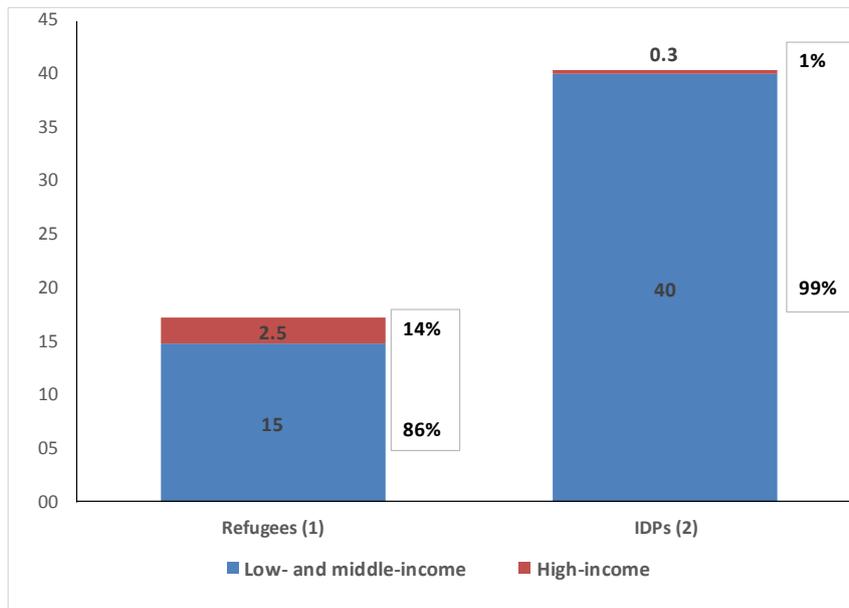
<sup>3</sup> At the London conference, donors (including the EU) pledged more than USD 53 billion for Syria and five neighbouring refugee-hosting countries (Egypt, Iraq, Jordan, Lebanon and Turkey) for the period 2016-2020, over USD 12 billion in the form of grants and over USD 41 billion in the form of loans. This was the largest amount of money ever raised in a single pledging conference in response to a humanitarian crisis. While a significant part of the pledges were not allocated by country (especially for the loan pledges), Jordan was the second main beneficiary of the allocated grant pledges (after Turkey) and the main one in per capita terms. See Development Initiatives (2017). Donors made substantial additional pledges for these five countries at the follow-up conferences on Syria and the Region organized in Brussels on 5 April 2017 (covering 2017-2020) and 24-25 April 2018 (covering 2018-2020). See Development Initiatives (2018) and Council of the EU (2018).

very relevant preferential arrangements, namely those offered by the United States to Jordan and Egypt under the Qualifying Industrial Zones (QIZ) initiative and to Sub-Saharan African countries under the African Growth and Opportunity Act (AGOA), both of which also entail an easing of the rules of origin. Having examined and compared these three experiences, Section 7 draws the main lessons and discusses the conditions under which trade preferences can be effective in supporting the employment of refugees in countries of first asylum. Section 8 looks at the actual scope for improving trade preferences in the top refugee-hosting developing countries, while Section 9 discusses some concrete policy options, with reference also to some recent proposals put forward in the international or EU context. Finally, Section 10 makes some concluding remarks.

## 2. The New Approach to Refugee Protection

The possible use of trade preferences to encourage refugee employment in countries of first asylum is fully consistent with, and could be a key element of, the new approach to refugee protection. The new approach starts with the observation that over 85% of world refugees and the overwhelming majority of internally displaced people (IDP) live in the developing countries (see Figure 1). In fact, most refugees stay in their regions of origin, normally in neighbouring countries. The new approach is also based on the realization that most refugee (and, to a lesser extent, internally displaced) situations are very protracted. Indeed, the average duration of refugees' exile in 2015 was about 10 years, with about half of the refugees having been in exile for at least four years (World Bank, 2017; p. 5).

**Figure 1: World's forcibly displaced people - by host country and income group, 2016**  
(in million and in percent of total)



Sources: UNHCR, *Global Trends 2016*, 2017; IDMC, *Global Report on Internal Displacement*, 2017; and World Bank classification of countries by income level.

(1) Refugees and people in refugee-like situations as estimated by UNHCR. Excludes 5.3 million of Palestinian refugees under UNRWA's mandate.

(2) IDPs refers only to Internally displaced people due to political conflict and generalised violence.

While most refugees tend to stay close at home, developed countries spend much more money on the asylum seekers that come to their territories than on the refugees that stay in developing countries.<sup>4</sup> Moreover, because refugee situations are so protracted, the current international model of refugee protection for the 85-90% of refugees that remain near their countries of origin has turned into a humanitarian assistance system that excessively relies on the provision of food, clothing and shelter within refugee camps run by the UNHCR. Refugees are often not allowed to work formally or move freely and they lack access to the host country's basic public services such as education and health, even though this goes against the UN's 1951 Refugee Convention and its 1967 Protocol.<sup>5</sup> In this context, camps that were initially meant to be temporary often become permanent while refugees experience an erosion of skills and aspirations, creating a sense of frustration and alienation. Many, if allowed, decide to leave the camps and move to cities, often renouncing at least part the humanitarian assistance they get in the camps, in the hope of finding an informal job and recover their economic autonomy. But they face little support from the host authorities, which often restrict legally or make it expensive and cumbersome to get the necessary work and residence permits.

This system not only constrains the refugees' capacity to become economically autonomous and to integrate into their host countries but prevents the latter from benefiting from refugees' skills and potential economic contribution. Moreover, it makes it harder for the refugees to develop or maintain the skills that will be needed to reconstruct their countries after the conflict that led them to flee is over.

The new approach proposes to overcome this humanitarian model and to adopt a development-based model of refugee protection that sees refugees also as an economic opportunity for the host countries. Under this new approach, refugees must be given the right to work formally outside refugee camps and to access the host countries' basic public services, in particular education and health care. The involvement of the private sector is also encouraged. These are the main ideas that are behind the proposals by authors or institutions such as Betts and Collier (2017), the World Bank (2017) and CGD and IRC (2018) and behind the Global Refugee Compact being prepared by the UN. It is also behind the new approach to forced displacement that the European Commission proposed in its Communication of April 2016, which aimed at avoiding protracted displacement situations "by fostering self-reliance and enabling the displaced to live in dignity as contributors to their host societies, until their voluntary return or resettlement" (European Commission, 2016a; p. 2).<sup>6</sup>

The new model of refugee protection, sometimes referred to as "the Compact approach," is often linked to the proposal to employ refugees in *special economic development zones* (either already existing or to be created) with financial support both from donors and private investment, in some cases backed up by the granting of special trade preferences for products manufactured in them. These special zones not only can help give jobs to the refugees, especially when they are located close to refugee camps, but they can act as poles of industrial and economic development for the host countries, supported also by the economies of scale that the "clustering" of firms in concentrated

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<sup>4</sup> Thus, based on some simple extrapolations of what Germany's public sector spends per refugee living in Germany and of what the United Nations High Commissioner for Refugees (UNHCR) allocates to support refugees in countries of first asylum, Betts and Collier (2017; p. 129) estimate that the world spends USD 123 on a refugee living in developed countries for each US dollar spent on a refugee living in developing countries.

<sup>5</sup> Indeed, many key refugee-hosting countries either have not ratified the Refugee Convention and Protocol or have done so but apply reservations to some of its key articles (see Section 9). According to a recent study by the World Bank (Zetter and Ruaudel, 2016), only 75 out of the 145 countries that have ratified the Refugee Convention de facto grant national treatment to refugees regarding employment.

<sup>6</sup> The argument that refugee protection should shift in part from humanitarian assistance to an approach based on granting refugees access to labour markets and making them economically self-reliant is not uncontested (see, for example, Crawley, 2017). For some critics, the sought for economic autonomy is often elusive and precarious and the proposed approach risks leaving many refugees unprotected or worse off, which also means that many refugees may prefer to continue relying on the basic assistance they receive in camps.

locations can generate. This is indeed the approach followed in the case of the EU-Jordan Compact. But the compact approach does not require the concentration of refugee employment in economic zones. And in fact, as this paper argues in connection to the use of trade concessions, it is bound to be more effective if it facilitates the employment of refugees across the entire economy. Similarly, the new model does not require the granting of trade preferences, but if properly designed and supported by other policies, trade preferences can in principle stimulate the recruitment of refugees in sectors benefiting from them, including by attracting private investment. The main aim of this paper is to discuss the conditions under which trade preferences are likely to have such stimulating effects and, therefore, support the new developmental approach to refugee protection.

One advantage of the new approach is that, because of cultural and language proximity and the existence of extended family networks, it is easier to integrate refugees and provide them with real livelihood opportunities in the neighbouring haven countries where most of them live. Indeed, nationals from the countries the refugees come from typically have a history of circular migration to their neighbouring countries, with which borders are often very porous. This is the case, for example, of the several hundred thousand Syrians that worked in Jordan and Lebanon before the Syria war, mostly in the agricultural and construction sectors (see, for example, Mehchy and Doko, 2011 and Wagner, 2017). Partly because of this, their refugee skills are also more likely to be easily assimilated in the economies of neighbouring countries than into those of advanced economies or other faraway host countries.

Another related advantage is that the labour market integration of refugees in neighbouring countries can facilitate the post-conflict reconstruction of their countries of origin. This is particularly true when firms from the conflict country (often footloose firms), also fleeing war and economic instability, relocate to the neighbouring countries and continue to operate in part with refugees from that country. After the conflict is over, they can easily return home, bringing with them part of their refugee workforce. But even without the relocation of firms from the conflict country, the employment of refugees in proximate haven countries, especially when combined with access to those countries' educational system and vocational training, can help develop their skills or prevent their erosion, making it easier for them to find jobs back in their countries of origin after the conflict ends.<sup>7</sup> In that way, refugees (and relocated firms from their countries of origin) can get prepared for and help the post-conflict economic recovery of their own countries. A good example is provided by the many Syrians who work (mostly informally) in the construction sectors of Jordan and Lebanon, who could one day help reconstruct the housing and infrastructure of post-war Syria.<sup>8</sup> Not all experts agree, however, with the idea that deeper labour market integration of refugees in countries of first asylum will facilitate their return to and the reconstruction of their home countries after the conflict is over. Some believe that employment schemes for refugees may deter their return once peace is restored since they will be more reluctant to go back if they have found a good job in the host country.

The new approach to refugee protection has been enshrined, as noted, in the UN's new CRRF, which is an important component of the New York Declaration for Refugees and Migrants adopted by its 193 member countries at the UN's General Assembly of September 2016.<sup>9</sup> The Declaration, which paves the way to the adoption by UN members of a Global Compact on Refugees towards the end of

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<sup>7</sup> By contrast, the massive flow of educated refugees to advanced economies implies a "brain drain" that can retard the post-conflict economic recovery of their home countries, especially as refugees integrating in rich, distant countries are less likely to return home. On this point, see Betts and Collier (2017; p. 199), who estimate that, at the peak of the Syrian refugee flow, about half of the Syrian refugees coming to Europe had a university degree, which is in contrast with the fact that in Syria only one person in thirty had university education.

<sup>8</sup> Syrian refugees are estimated to account for up to 41% and up to 33% of the labour force of the Jordanian and Lebanese construction sectors, respectively (see Howden et al., 2017).

<sup>9</sup> "New York Declaration for Refugees and Migrants, Resolution Adopted by the General Assembly on 19 September 2016," A/RES/71/1 (<http://www.unhcr.org/57e39d987>).

2018, represents a historical landmark in the recognition by the UN of the need to move towards a developmental approach to refugee protection.<sup>10</sup> Indeed, the Declaration explicitly acknowledges that refugee camps should be the exception and only a temporary response in situations of emergency. Instead, it calls for refugees to be integrated in their host communities by giving them full access to the local labour markets as well as to the local education and health systems, so that they can build their skills and become self-reliant, thus benefiting also the host communities and reducing their dependency on aid.

The new CRRF also stresses the use of new multilateral financial facilities, such as the IDA's refugee window and the Global Concessional Financing Facility (GCFF), designed to support refugees' self-reliance and the economic resilience of host communities, as well as the participation of the private sector. Indeed, in recent years there has been substantial progress with the adoption by multilateral and bilateral donors of new financial facilities aimed at having a developmental impact on refugees and host-communities.<sup>11</sup> The new CRRF also considers the possibility of including preferential trade and investment arrangements with the endorsement of the WTO, the UNCTAD and regional bodies. The possible role of trade concessions was, indeed, part of one of the Thematic Discussions preparing the future Global Compact on Refugees, although nothing concretely has been agreed for now.

Seven Sub-Saharan African countries (Djibouti, Ethiopia, Kenya, Rwanda, Tanzania, Uganda and Zambia), most of which are among the top 25 refugee-hosting countries, have already agreed to apply the CRRF as pilot cases. The new Framework will also apply, although through regional approaches, to Somalia and six Central American countries. Furthermore, at the Leaders' Summit on Refugees that took place in New York a few days after the adoption of the New York Declaration, 17 countries with significant refugee populations, including many of the above-mentioned countries, pledged to enact policy measures favouring the socio-economic integration and access to public services of their refugee populations.<sup>12</sup> In the same Summit, donors pledged to increase financial assistance by approximately USD 4.5 billion above 2015 levels, and made also substantial new commitments on refugee admission and resettlement.

This is all consistent, of course, with the Compact philosophy, i.e., refugee-integration commitments made by key refugee-hosting countries in exchange for increased developmental financial assistance and, possibly, trade concessions on the part of developed economies. A clear example is the so-called Jobs Compact being negotiated with Ethiopia, the country with the second largest refugee population in Africa, which will entail the creation of industrial development zones employing up to 100,000 people, with a significant portion of the jobs reserved for refugees, and the distribution of 10,000 hectares of available irrigable land to some 20,000 refugees, where they will be allowed to grow their own crops. Ethiopia has also committed, inter alia, to expanding its "out-of-camp" policy, to issuing the necessary work permits for refugees and to facilitating access of refugees to its education system and essential social services. The Jobs Compact is expected to be supported by substantial, well-targeted development assistance projects co-financed by a coalition of key donors, including the EU, the UK and the World Bank.

While neither Ethiopia's Jobs Compact nor other compacts being discussed as part of the CRRF include for now trade concessions, it is clear that the granting of trade preferences might be considered

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<sup>10</sup> The Global Refugee Compact will include both the CRRF and a concrete programme of action to ensure its implementation. See UNHCR, "Towards a Global Compact on Refugees: a Roadmap," 17 May 2017 (<http://www.unhcr.org/58e625aa7>). The New York Declaration also foresees the adoption in 2018 of a "Global Compact for Safe, Orderly and Regular Migration."

<sup>11</sup> These facilities try to bridge the gap between humanitarian assistance and traditional development assistance. For a discussion of these new facilities and their rationale, see Temprano-Arroyo (2018).

<sup>12</sup> See United Nations, "Summary Overview Document. Leaders' Summit on Refugees," 20 September 2016: <https://bit.ly/2PHTv74>.

in some cases, and could potentially strengthen the effectiveness of some of these refugee compacts. Although outside the CRRF, the approach (a refugee compact with trade concessions) has been recently proposed, for example, for Bangladesh by the Centre for Global Development (see Huang, 2018).

But let us turn now to the analysis of the EU-Jordan Compact, which does include such trade preferences, to see how they were designed and how effective they have been.

### **3. Main Features of the EU-Jordan Rules of Origin Scheme**

The EU-Jordan Compact is, as noted above, a paradigmatic example of the new approach to refugee protection and a key element of it was the relaxation of the rules of origin applied by the EU to certain Jordanian exports produced by refugees. This scheme became effective in July 2016 and has an initial duration of 10 years.<sup>13</sup> In fact, most of Jordan's industrial goods exports to the EU were already exempt from tariffs under the EU-Jordan Association Agreement that entered into force in 2002, provided they meet its minimum local content requirements. But the new scheme grants additional privileges to Jordanian exports by easing the rules of origin, which determine when a product can be considered to have been made in Jordan. Specifically, they ease those rules for Jordanian export companies that employ a minimum share of Syrian refugees and produce in one of 18 designated Special Development Zones and Industrial Areas. The minimum share is 15% of the total workforce during the first two years of the scheme, and 25% thereafter.

The scheme grants qualifying Jordanian exports the same rules of origin treatment that the EU offers to less developed countries benefitting from the EU's Generalised System of Preferences (GSP) - Everything But Arms (EBA).<sup>14</sup> It applies to a list of selected industrial items included in 52 chapters of the Harmonized System (HS) Code.<sup>15</sup> These industrial products cover about 85% of Jordan's exports to the EU and 72% of Jordan's exports to the world. Despite the interest Jordan showed during the negotiation of the scheme, it does not apply to processed agricultural products. The relaxation of the rules of origin means that, for products 'made by refugees,' the maximum share of imported content allowed is, in most cases, increased to 70% of their total export value, compared with an average of only 40% under the Association Agreement.<sup>16</sup> This allows participating exporters to source more inputs in the world market, rather than in Jordan, which will often render the final product more competitive in the EU market. In particular, it is hoped that the move from the "double transformation" to the "single transformation" requirement for textiles and apparel will stimulate Jordanian apparel exports by allowing them to qualify for the duty-free treatment even when the yarn

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<sup>13</sup> For more details on the rules of origin scheme, see "Decision No. 1/2016 of the EU-Jordan Association Committee of 19 July 2016 amending the provisions of Protocol 3 to the Euro-Mediterranean Agreement establishing an Association between the European Communities and their Member States, of the one part, and the Hashemite Kingdom of Jordan, of the other part [...]" (<https://bit.ly/2OyHFY6>).

<sup>14</sup> The GSP-EBA is the most generous version of the EU's GSP and only applies to the least developed countries. It grants duty free and quota free access to the EU market for all goods except armament. The other two variants of the EU's GSP are the standard GSP, which reduces EU import duties in about 60% of all product tariff lines, and the GSP+, which grants full removal of tariffs on over 66% of tariff lines to countries meeting certain additional requirements, including the ratification of 27 international conventions on human and labour rights, environmental protection and good governance. See <http://ec.europa.eu/trade/policy/countries-and-regions/development/generalised-scheme-of-preferences>.

<sup>15</sup> The HS code is an internationally standardized tariff nomenclature developed by the World Customs Organization to classify traded goods. It has a total of 97 chapters.

<sup>16</sup> In fact, the rules of origin are more complex than this simplified characterization. For some of the products covered by the scheme, the maximum content not originating in Jordan is lower, ranging from 15% to 50%. And in the case of textile and apparel products, the easing of the rules takes a different form: the new rules move from the 'double-transformation' requirement under the Association Agreement, which required that at least two of the three production processes involved in going from yarn (or thread) to fabric and then to clothing took place in Jordan, to the more generous 'single-transformation' rule, which only requires one of the three production processes to occur in Jordan.

(or thread) or the fabrics are imported from other countries (often from competitive, low-cost developing countries).

The EU was initially reluctant to agree to this scheme because it departs from the pan-Euro-Mediterranean system of diagonal cumulation of rules of origin, enshrined in the Convention signed by 23 European and Mediterranean countries in 2013.<sup>17</sup> Indeed, an earlier Commission proposal had envisaged the scheme to last only five years, renewable for another five years, would have applied to only five instead of 18 Special Economic Zones and Industrial Areas and would have entailed a higher minimum share of Syrian refugees in the staff of a company in order to qualify for the preferences (30% in the first two years of the scheme and 50% thereafter). But in the end, with the refugee crisis moving to the top of the political agenda, the EU accepted a more generous proposal that was closer to what the Jordanian authorities were requesting. The exceptionality of the scheme with respect to the pan-Euro-Mediterranean convention has been justified on the basis of the humanitarian and political imperative arising from the Syrian refugee crisis but it also explains its temporary nature and the restrictions in terms of products and locations (18 designated zones).

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), it will consider extending these more flexible rules of origin to the entire Jordanian economy.<sup>18</sup> This is, however, a very ambitious target because only about 4,000 Syrian refugees living in Jordan had formal work permits at the time of the London conference. In any case, a further relaxation of rules of origin would not be automatic but would require a new decision by the EU-Jordan Association Committee. Similarly, the EU and Jordan will need to take a new decision at the end of the 10-year period if they wish to extend the scheme.

The scheme is supported by several policy-based budget assistance programs from the EU and multilateral donors, namely: a budgetary support grant of EUR 55 million financed by the European Neighbourhood Instrument (“Support to Private Sector Development in Jordan”), which includes conditionality regarding the number of enterprises accessing the EU market from the 18 designated zones under the new rules of origin scheme and regarding the issuance of work permits to Syrian refugees in the economy as a whole;<sup>19</sup> a Macro-Financial Assistance operation, in the form of a EUR 200 million medium-term loan that is also conditional, inter alia, on progress with the implementation of the rules of origin scheme;<sup>20</sup> and a USD 300 million Programme-for-Results operation from the World Bank co-financed by the GCGF, which, inter alia, targets progress with the issuance of work permits to Syrian refugees in the entire economy (World Bank, 2016).

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<sup>17</sup> See “Regional Convention on pan-Euro-Mediterranean preferential rules of origin,” OJ L 54, 26.02.2013, pp. 3-158 ([http://data.europa.eu/eli/dec/2013/94\(1\)/oj](http://data.europa.eu/eli/dec/2013/94(1)/oj)). The 23 Contracting Parties to the Convention are the EU, three countries of the European Free Trade Association (EFTA), Turkey and the ten southern Mediterranean countries participating in the Barcelona Process, six Western Balkan countries, Moldova and the Faroe Islands.

<sup>18</sup> At the London conference, Jordan also declared its intention to issue 50,000 work permits to Syrian refugees within a year of the conference. The longer-term target of issuing 200,000 work permits for Syrian refugees represents 62% of all Syrian refugees of working age registered by the UNHCR in Jordan, and about 8% of the total number of Jordanian and migrant workers employed in Jordan (ILO, 2017a and ILO, 2017b).

<sup>19</sup> <http://www.jordantimes.com/news/local/jordan-receives-55-million-euro-grant-eu>.

<sup>20</sup> See “Decision (EU) No. 2016/2371 of the European Parliament and the Council of 14 December 2016 providing further macro-financial assistance to the Hashemite Kingdom of Jordan,” OJ L 352, 23.12.2016, pp. 18–25 (<http://data.europa.eu/eli/dec/2016/2371/oj>). For the Memorandum of Understanding specifying the policy conditions attached to the disbursement of this loan, see [https://ec.europa.eu/info/sites/info/files/mou\\_signed\\_mfa-ii\\_jordan.pdf](https://ec.europa.eu/info/sites/info/files/mou_signed_mfa-ii_jordan.pdf).

The main aim of the relaxation of the rules of origin is to encourage the labour market integration of Syrian refugees in Jordan and improve their living conditions. This should ease pressure for their secondary migration while facilitating their return to Syria once the political situation there allows it. It is also hoped that the scheme will help Jordan boost and diversify its industrial base by supporting the clustering of firms within the designated zones, taking advantage of economies of scale, the improved rules of origin and the available supply of refugee workers.

The EU considered offering a similar scheme to Lebanon, in addition to financial assistance, in the discussions leading up to the London conference. However, it appears that the Lebanese authorities showed more reluctance to this approach, reflecting Lebanon's particular political context. Indeed, in Lebanon's political system, characterized by a delicate balance among different religious confessions, the presence of a large number of Syrian refugees (estimated to account for about a quarter of Lebanon's population), most of them Sunni Muslims, is seen as a potentially destabilizing development. Measures to support the formalization and integration of Syrian refugees in Lebanon remain, therefore, a politically sensitive issue in Lebanon. While a Compact entailing a substantial increase of assistance was also agreed between the EU and Lebanon following the London Conference, it did not include trade concessions. Nor were such measures granted to Turkey or the other countries participating in the London conference.

#### **4. Assessment of the Operation of the EU-Jordan Scheme so far**

While the rules of origin scheme agreed between the EU and Jordan has not been in effect for long, its early results have been disappointing: by the end of November 2017, only 10 factories had obtained the authorization to export under the scheme (mostly in the plastics, garment and metal sectors). The combined workforce of those 10 factories was only 697 employees, 233 of whom were Syrian refugees.<sup>21</sup> By April 2018, one more company had been authorised, according to updated information obtained from the Jordanian authorities. Of these 11 companies, only three (two in the plastics sector and one in the garment industry) were successfully exporting to the EU.

The scheme has faced several major obstacles:

- There are few Jordanian companies with the experience and marketing networks necessary for exporting to the EU the particular products that benefit from the rules of origin scheme.
- Jordanian companies face strong competition in the EU market from other Asian emerging and developing countries (including China) that are capable of producing at very low costs and have ample experience in textile and apparel production. Some of them can access the EU market at preferential or zero tariffs under the GSP. Thus, India, Indonesia, and Vietnam enjoy reduced rates under the EU's standard GSP arrangement; Pakistan, Philippines, and Sri Lanka enter the EU free of duties for a large proportion of their exports under the GSP+; and Bangladesh and Cambodia enter, under the GSP-EBA, free of duties and already benefit from the more favourable rules of origin applied to Jordan.<sup>22</sup>
- The competitiveness of Jordanian exports is also affected by the relatively high costs of internal and external transport, exacerbated by the fact that the border closure with Syria prevents transportation by land through that country (MoPIC, *op. cit.*; p. 23).

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<sup>21</sup> See MoPIC (2017).

<sup>22</sup> Indeed, the proliferation of FTAs and other preferential trade schemes granted by the EU tends to reduce the potential economic impact, as well as the political leverage, of any new preferential scheme granted by the EU. This is particularly true for preferences granted to the least developed countries. According to a study by the European Commission (Davies and Nilsson, 2013), the share of imports from least developed countries that already benefit from either trade preferences or duty-free Most Favoured Nation (MFN) tariffs is much larger in the EU than in the United States.

- Some Jordanian products do not meet the EU's mandatory technical standards for manufactured goods.
- Syrian workers are reluctant to work in the 18 designated areas. Indeed, Syrian refugees fear losing their refugee status or the donor support that comes with it, even though the UNHCR reiterates that holding a work permit has no direct bearing on the refugees' status or eligibility for cash assistance (see ILO and IFC, 2017; pp. 52-53). Hence, they demand a relatively high wage to work formally. However, wages in some of the sectors benefiting from the special rules of origin, notably in the garment industry, are very low: they are well below the average Jordanian wage in the private sector and would actually be below the minimum wage if it was not for the complementary "in-kind wage" (in the form of accommodation in compounds in the industrial zones, food and other amenities) paid to the workers (ibid.; pp. 43-44).
- Cultural factors may have also deterred some Syrian women from working in the factories located in those zones. Indeed, many of the Syrian refugees that sought protection in Jordan come from traditional rural areas in the South of Syria where there is a widely held belief that certain jobs such as home-based business, food production and handicraft are better suited for women. By contrast, working in factories located in a development zone, where women must closely share the work space with men, or having to walk or take public transportation on their own to reach them, might be seen as exposing women to socially unacceptable situations (ibid.; pp. 51-52 and 54).<sup>23</sup>
- Beyond the particular problem of women just mentioned, the authorities argue that restricting the scheme to the 18 designated zones has complicated the participation of refugees who live in cities and villages and find it difficult to access the designated zones through public transportation (MoPIC, op.cit.; p. 24).
- Syrian refugees in Jordan often lack the necessary skills to work in industry because their professional experience is mostly in sectors such as agriculture, construction and home services, which do not benefit from the special rules of origin. Although many Syrians used to work in the thriving garment industry of Aleppo and Homs, refugees from these cities have tended to flee to Turkey and Lebanon, rather than to Jordan, due to their proximity to the borders with those two countries.<sup>24</sup>
- Jordan continues to apply a quota system that restricts the share of foreign workers Jordanian companies are allowed to employ. In particular, the garment sector, which is, as noted, one of the main potential beneficiaries of the special rules of origin, is required to hire at least 30% of Jordanian workers, a quota that it often struggles to meet. Retaining Jordanian labour in this sector can be a challenge and employers argue that they cannot offer work permits to Syrian refugees before they comply with the required number of Jordan employees. Moreover, meeting the initial EU-Jordan Compact requirement to hire at least 15% of Syrian refugees obliges companies to reduce the maximum share of other migrant workers, who are often perceived as better skilled and more hard-working (see ILO and IFC, op. cit.; p. 39).
- The authorities argue that limiting the scheme to the 18 designated zones and to the 52 industrial product chapters of the HS (which left out some processed food products with good potential to be exported to Europe) and requiring the hiring of a minimum share of Syrian workers was overly restrictive (at least two companies applying for the scheme were rejected for not reaching that minimum thresholds). These constraints, together with the uncertainty over the renewal of the scheme, may have discouraged foreign investors from coming to Jordan to take advantage of the easing of the rules of origin. Indeed, the expectation created in the run-up to the London conference that some well-known multinational companies such as Asda and Ikea would invest

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<sup>23</sup> Working at home also allows women to better balance time between work and family duties.

<sup>24</sup> See Howden et al., op. cit.; p. 45.

in the development zones supported by the new rules of origin (see Betts and Collier, 2016; p. 5) have not been realized. In this context, the authorities have called for an easing of all these restrictions ahead of the mid-term review of the scheme, scheduled to take place four years after the entry into force of the scheme, and for announcing immediately the extension of the scheme for another 10 years (MoPIC, *op. cit.*; p. 27). The EU is considering responding favourably to some of these proposals (see below).

The EU and other donors are providing technical assistance to try to overcome some of these problems. The German development agency GiZ and USAID (United States Agency for International Development) have put in place multi-million-dollar programs to increase the competitiveness of Jordanian exporting firms, promote matchmaking with EU firms, and help them take advantage of the rules of origin agreement. The EU and International Labour Organization (ILO), for their part, have joined forces to support the establishment of employment services and vocational training programs that are general in scope but also assist the factories in the 18 designated zones. Moreover, the EU and World Bank have been instrumental in the Jordanian decision, taken in April 2016, to waive, at least temporarily, the fee for work permits issued to Syrian refugees, a cost that was discouraging Syrian workers from entering into formal labour contracts.<sup>25</sup> They have also supported awareness campaigns to persuade Syrians to legalise their work status, trying to reassure them that obtaining a work permit will not result in the loss of humanitarian assistance.

While the impact of these supportive measures on the hiring of Syrian refugees in the 18 designated zones has so far been limited, there is an encouraging trend in the number of work permits issued to Syrian refugees in the Jordanian economy as a whole. As Figure 2 shows, the estimated stock of work permits issued to Syrian refugees has gone up from only about 4,000 in early 2016 to over 51,000 in May 2018. Nonetheless, the vast majority of the Syrian refugees who work in Jordan continue to do so informally.<sup>26</sup> Moreover, many of the work permits issued to Jordan refugees since 2016 simply formalize their work situation rather than entailing the creation of new jobs. At the rate of annual net issuance of work permits observed since early 2016 (about 20,000), Jordan would not be attaining the target of formally employing 200,000 Syrian refugees across the economy until 2025. There is, therefore, little prospect that the EU will consider extending, in the foreseeable future, the special rules of origin to the entire Jordanian economy.

One factor that continues to discourage the formalization of Syrian jobs is, as noted, the quotas on the employment of foreign workers that Jordan applies in many sectors. Some occupations such as doctors, lawyers, teachers, electricians or hairdressers, are simply closed to non-Jordanians (ILO and IFC, *op. cit.*; pp. 40-41).<sup>27</sup> Moreover, in some activities opened to Syrians such as the construction sector, Syrians prefer to work informally because work permits normally tie workers to a single employer. Working informally allows them to work freelance for several companies and, because they avoid paying social security contributions, employers might be willing to pay them a better salary.

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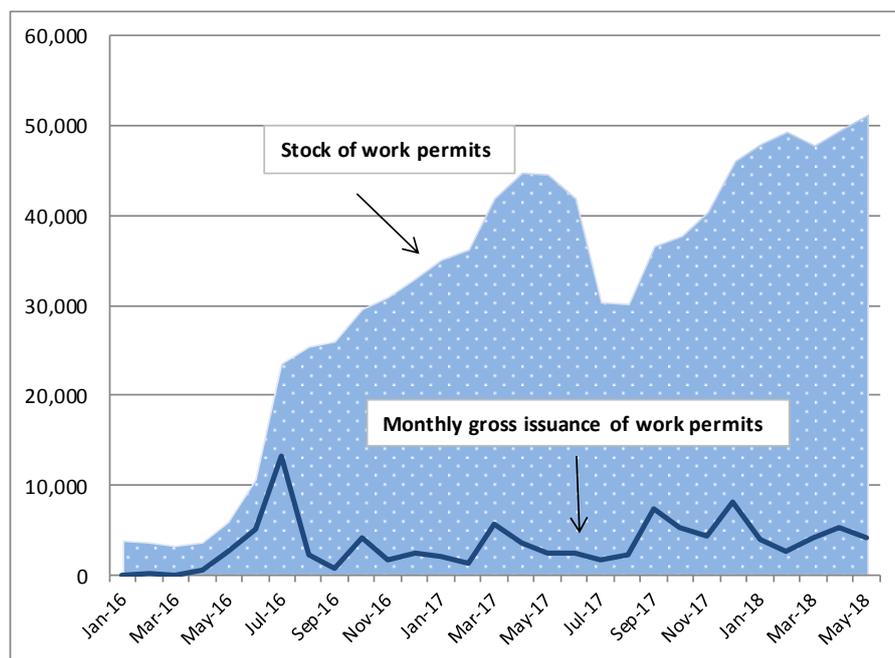
<sup>25</sup> Fees for getting a work permit ranged from JOD 170 to JOD 370 (USD 121-522).

<sup>26</sup> In 2016, the World Bank estimated that, between 90,000 and 130,000 Syrian refugees were working informally in Jordan (World Bank, 2016; p. 61). Other available estimates suggest that between 85,000 and 331,000 Syrians work in Jordan, of which only a small part have work permits (ILO, 2017b; p. 29). The situation is similar in the other main countries in the region hosting Syrian refugees (Turkey, Lebanon, and Egypt). For example, in Turkey, out of a Syrian refugee population of working age of over 1.5 million, only about 4,000 had work permits by the end of 2015 while 300,000 were estimated to work informally. And by the end of 2016, after Turkey removed certain restrictions on the right of refugees to work formally, the number of work permits issued to Syrians was still only about 13,000. See Okyay (2017).

<sup>27</sup> The room for hiring Syrian and other foreign workers could further tighten in the coming years if the authorities stick to their objective, announced in the National Employment and Empowerment Programme adopted in September 2017, of reducing every year by 25% the number of migrant workers in most sectors. Fortunately, however, the Prime Minister adopted in May 2018 a decision excluding Syrian workers from the employment reduction target for the industrial sector.

In order to address some of these issues, the Jordanian Ministry of Labour has signed a Memorandum of Understanding with the Construction Contractors Association allowing Syrian construction workers, who are estimated to represent 40% of the Syrians working in Jordan, to move freely between employers on the basis of a single work permit (ILO, 2017b; p. 31). Rules were also eased for seasonal farm labourers, another important source of employment for Syrians, allowing them to obtain work permits through agricultural cooperatives and then shift among different short-term jobs with a single permit. The Ministry of Labour also removed, under certain conditions, the need to be registered with the social security and have a health certificate to apply for a work permit (Howden et al., op. cit.; pp. 10-12). But again, all these measures, which contribute to explain the observed upward trend in work permits, have simply favoured the legalisation of thousands of informal Syrian refugee jobs.

**Figure 2: Jordan -Work permits issued to Syrian refugees**



Sources: ILO, Jordanian Ministry of Labour and own estimates.

Note: Monthly changes in the stock do not coincide with monthly gross issuance because work permits expire every 12 months.

In sum, the creation of jobs for Syrian refugees in the 18 designated zones supported by special rules of origin agreement has so far been limited. Together with other commitments and incentives under the EU-Jordan Compact, the scheme has, however, contributed to triggering a change in policy by the Jordanian authorities, which is facilitating the issuance of work permits for Syrian refugees in the economy as a whole. But while this macro trend is encouraging, it should now move beyond the simple formalization of already existing jobs.

In an attempt to make the rules of scheme more flexible and therefore more effective, the Commission adopted on 14 June 2018 a proposal for a EU Council Decision that accepts some of the suggestions made by the authorities.<sup>28</sup> In particular, the Commission proposes to drop the requirement that Jordanian exports be produced in one of the 18 designated zones. It also proposes to postpone from the third to the fourth year the increase from 15% to 25% in the minimum share of Syrian

<sup>28</sup> See European Commission (2018).

refugees that companies wishing to benefit from the scheme must have in their workforce. Moreover, the time elapsed will be counted individually for each company from the moment of registration of the first export made under the scheme instead of from the date of introduction of the scheme (July 2016).<sup>29</sup> These are welcome measures. Other options that the EU should perhaps consider in order to increase the impact of the scheme are to include processed agricultural products in it and to extend immediately (say, for another 5-10 years) the period of validity of the scheme in order to increase its predictability and encourage investment.<sup>30</sup> Beyond that, it is essential to continue supporting the implementation of the scheme with technical and financial assistance and to complement it with a broader strategy, including measures aimed at promoting the employment of Syrian refugees in the Jordanian economy at large.

## **5. A Comparison with the U.S. Qualifying Industrial Zones Initiative**

The disappointing performance, so far, of the EU's rules of origin scheme for Jordan contrasts with the rather successful export and job generation experience of Jordan and Egypt with the Qualifying Industrial Zones (QIZs) initiative launched in 1996 by the United States.

### ***5.1 Key provisions of the QIZ programme***

Under the QIZ program, the United States grants duty- and quota-free access to Jordanian or Egyptian exports co-produced with Israel in export-processing zones (QIZs) that meet certain local content requirements. This scheme was implemented through an amendment of the 1985 U.S.-Israel Free Trade Area (FTA) Implementation Act. It was meant to support the Middle East peace process (two years after the Oslo Agreements and the Jordan-Israel peace accord) by promoting trade between Israel and the two neighbours with which it had concluded peace treaties. The programme was first introduced in Jordan, which opened its first QIZ in 1997. Egypt joined it in 2004.<sup>31</sup>

QIZs are a specific type of free trade zones with operations in either Jordan and Israel or Egypt and Israel, where goods were initially produced solely for export to the United States. While QIZs must include territory in both Jordan and Israel or in both Egypt and Israel, they need not be a contiguous piece of land. The QIZ program extends to products manufactured in the QIZs the 35% minimum local content requirement under the rules of origin applied in the U.S.-Israel FTA. And like in the U.S.-Israel FTA, U.S. input can be counted towards the 35% content requirement (although up to a maximum of 15% of the total value). Goods produced in QIZs satisfying this 35% content requirement can enter the United States free of duties.

The original QIZ agreement signed with the Jordan stipulated that both Jordan and Israel would contribute each at least one third of the 35% minimum local content and the rest could be contributed by a combination of inputs from the United States, the Jordanian QIZ, Israel and the West Bank and Gaza. Subsequently, however, Israel, Jordan and the United States agreed on more precise content shares, requiring that at least 11.7% of the value be produced in Jordan and at least 8% (7% for high-

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<sup>29</sup> Recital 12 of the Annex to the European Commission's proposal also calls on Jordan to exclude Syrian refugees from the sectoral targets for the reduction in the share of foreign workers (see footnote 27 above) and to continue to ensure that the cost of working permits is waived for them.

<sup>30</sup> The Commission argues that extending the scheme, which as noted grants GSP-EBA treatment, to processed agricultural products would not improve their treatment compared to what Jordan already gets under the Association Agreement in combination with the planned revision of the pan-Euro-Mediterranean agreement on rules of origin, and that, in some cases, it may actually worsen it. But the problem is that it might take quite some time for the revision of the pan-Euro-Mediterranean Agreement to be agreed and enter into force. Extending the EU-Jordan scheme to the processed agricultural products would allow Jordan (and Syrian refugees) to benefit from its more favourable rules immediately.

<sup>31</sup> The scheme also applies to goods produced in the West Bank and Gaza. For the experience of the West Bank and Gaza with the QIZ program, see CRS (2013).

tech products) in Israel. For Egypt, the rules require that at least 10.5% of the value be produced in Egypt and at least 10.5% in Israel, with the rest up of the 35% minimum local content coming from a combination of inputs from the United States, the Egyptian QIZ and Israel. Under a variant of these rules, however, a product manufactured in a Jordanian or Egyptian QIZ can qualify for duty-free treatment provided that the QIZ enterprise and the Israeli manufacturer both shoulder at least 20% of the cost of production, excluding profit.<sup>32</sup>

The United States considered in the past extending the QIZ programme to Turkish exports produced in cooperation with Israel (also through an amendment of the U.S.-Israel FTA). It also envisaged for a while a similar scheme for Afghanistan and Pakistan, which would have been called the Reconstruction Opportunity Zones (ROZs) programme and would have allowed certain goods produced in designated export processing zones located in these two countries (the ROZs) to enter the United States duty free. The first initiative was proposed by the U.S. administration in 2006 and the second one in 2009. Both focused on improving the preferential access for textile and apparel products because although the three countries were already benefiting from the U.S. GSP, the GSP did not include these sensitive products. While in both cases draft legislation was submitted to Congress, the proposals were subsequently abandoned. However, it is worth mentioning them in this context not only because of their similarity with the QIZ initiative but also because they were addressed to three countries that are among the world's top hosts or top countries of origin of forcibly displaced people and because they both focused on labour-intensive sectors with a potential to create rapidly employment for refugees or IDPs.<sup>33</sup>

## **5.2 Performance under the QIZ programme**

Over the first eight years after the QIZs were introduced in Jordan, QIZ exports to the United States boomed, accounting in 2004–05 for over 85% of Jordan's exports to the United States and over 25% of total Jordanian exports (see Figure 3). As a result, the United States, which had accounted for a very small share of Jordan's exports until then, became the largest market for Jordan's exports. The bulk of the products exported by the QIZs were apparel goods. Investment flooded into the QIZs, particularly from Asian investors whose textile and apparel exports to the United States were then still subject to quotas and high tariffs under the Agreement on Textiles and Clothing (ATC) of the World Trade Organization (WTO).<sup>34</sup> Alongside Asian investment into the QIZs, there was an inflow of adequately trained and hard-working Asian workers, including from China, India, and Bangladesh. Thus, QIZ exports were initially successful because they facilitated production in Jordan at relatively low costs with well-trained labour while taking advantage of Israel's existing marketing links to the United States.

When compared with the relaxation of the rules of origin offered by the EU to Jordan in 2016, the economic incentive was initially much stronger. Indeed, under the QIZ program, Jordan's textile and garment exports to the United States not only avoided the restrictive quotas imposed by the MFA/ATC but were also sheltered from competition from other emerging and developing exporters by those same quotas. They were further sheltered by the more limited coverage of the U.S. GSP system, which leaves out some very competitive low-income exporters of garments (such as Bangladesh and Vietnam), and by the relatively high most favoured nation (MFN) tariffs imposed by the United States

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<sup>32</sup> See Saif (2006) and CRS (2013).

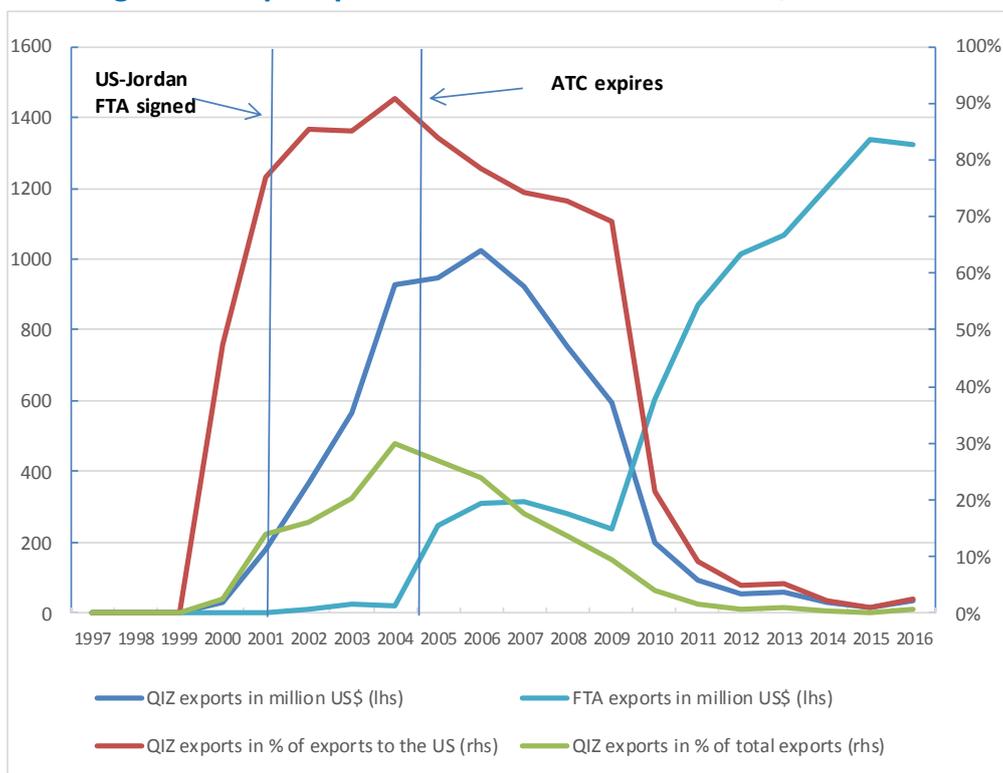
<sup>33</sup> For a description of the Israel-Turkey QIZ proposal, see Bolle (2003). For the ROZ initiative, see Bolle (2009).

<sup>34</sup> The ATC, signed in 1994, replaced the Multi-Fiber Arrangement (MFA), which governed world trade in textiles and garments from 1974 through 1994 and imposed bilaterally negotiated quotas on the amount of these products developing countries could export to developed countries. The ATC provided for a 10-year phasing-out of these quotas and expired on 1 January 2005.

on this type of products.<sup>35</sup> In addition, and in contrast with the EU’s scheme for Jordan, the QIZ program does not entail the obligation of employing a minimum share of less well-trained (and, given their higher reservation wage, relatively more expensive) Syrian refugee labour.

Despite these supporting factors, however, the rapid expansion of QIZ exports observed in the first eight years of the initiative proved unsustainable. First, the expiration of the ATC in 2005 (and the associated elimination of textile and apparel quotas) reduced the preference margin that Jordanian apparel exports enjoyed in the United States. Second, in 2001, the United States and Jordan concluded an FTA that entered gradually into effect over the subsequent 10 years. As a result, Jordanian firms no longer had to co-produce with Israel to access the U.S. market free of duties, removing part of the appeal of the QIZs. Reflecting both factors, exports entering the United States under the QIZ programme have declined rapidly since 2006 (see Figure 3).

**Figure 3: Export performance of Jordanian QIZs, 1997-2016**



Sources: United States International Trade Commission (USITC) Dataweb; IMF Direction of Trade statistics.

<sup>35</sup> Under the MFA/ATC quota regime, countries not receiving preferential treatment, such as China, had to pay a higher MFN tariff in the United States than in the EU; and they continued to do so after the quotas were phased out by the ATC. In 2016, the U.S. MFN applied tariffs for textiles and clothing averaged 7.9% and 11.6%, respectively, with importers paying as much as 34% for some textiles and up to 32% for some clothing articles. By contrast, the EU MFN applied tariffs for textile and clothing averaged 6.5% and 11.5% respectively, with the maximum tariff being capped, as for all other imported goods, at 12%. See WTO et al. (2017).

**Table 1: Employment in Jordanian QIZs, 2001-2009**

Year (1)	Locals	Foreigners	Total	% Locals	% Foreigners
2001	13,300	5,700	19,000	70%	30%
2002	13,900	9,600	23,500	59%	41%
2003	16,175	12,464	28,639	56%	44%
2004	17,070	14,120	31,190	55%	45%
2007	13,241	36,807	50,048	26%	74%
2008	10,529	32,543	43,072	24%	76%
2009	9,728	29,837	39,565	25%	75%

Source: Ghoneim and Awd (2009), using data from the Jordanian Ministry of Labour.

(1) Data for 2015 and 2016 are not available

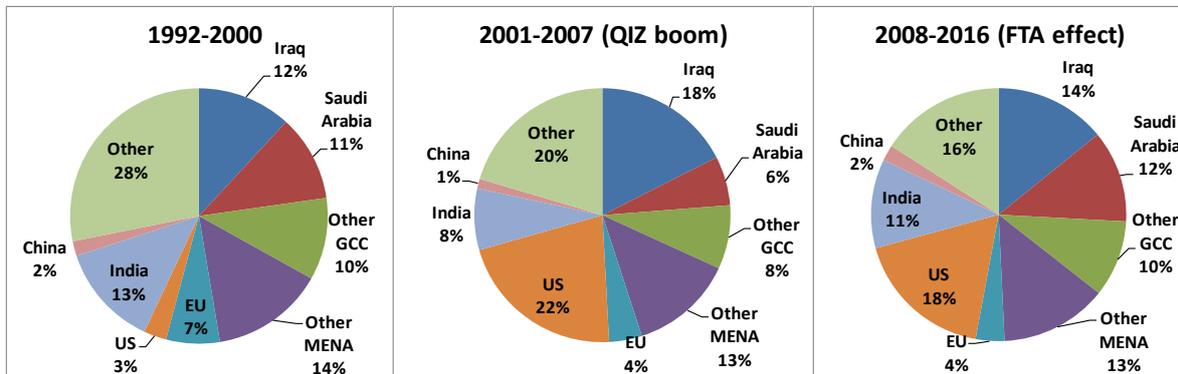
Moreover, the QIZ program had a number of drawbacks in Jordan. The QIZs did little to reduce Jordan's high rate of unemployment, since more than half of the 35,000 to 45,000 jobs created in the QIZs were taken by foreign, mostly Asian workers (see Table 1). This reflected their better training and experience with textile and apparel production as well as their willingness to work at low wages, take on long hours, and put up with tough working conditions, with most Asian workers living in the accommodation provided by companies within the QIZs themselves. Jordanian workers were less keen to work under such conditions.<sup>36</sup>

The problem of labour conditions in the QIZ quickly became a subject of public debate<sup>37</sup> and led to a joint reaction by the U.S. and Jordanian authorities to address the issue, including the adoption of an Action Plan for labour based on ILO guidelines and regular monitoring and discussion within the Labour Subcommittee created under the U.S.-Jordan FTA's Joint Committee (see CRS, 2013). Part of the problem was created by the exceptions made by the Jordanian government to some labour rules in the QIZs in order to attract foreign investment, such as the already mentioned exemption from minimum wage regulations. This experience warns about the risk that, in trying to encourage employment of refugees in economic development zones in the context of refugee compacts, labour conditions might worsen. The EU has tried to avoid a repetition of this problem in the context of the EU-Jordan Compact's scheme both by agreeing with Jordan on specific benchmarks regarding labour conditions and by involving the ILO, which will regularly monitor and report on labour conditions in the firms in the 18 zones benefiting from the scheme.

<sup>36</sup> On the other hand, the majority of the Jordanian workers who joined the QIZ factories were woman, a particularly positive development given that in Jordan, as in most Arab countries, woman participation in the labour force is very low (see Saif, 2006 and Ghoneim and Awad, 2010).

<sup>37</sup> Labor issues came to the fore when a U.S.-based NGO, the National Labor Committee, published in 2006 a very critical report on working conditions in the QIZ, arguing that ILO standards were not being met (despite Jordan having ratified eight major ILO and human rights conventions). The issues reportedly included mandatory, long working shifts, limited leave, the exemption of QIZ factories from minimum wage regulations, and the squalid living conditions of guest workers residing within the confined QIZs. See National Labor Committee (2006).

Figure 4: Jordan's Main Export Partners, 1992-2016

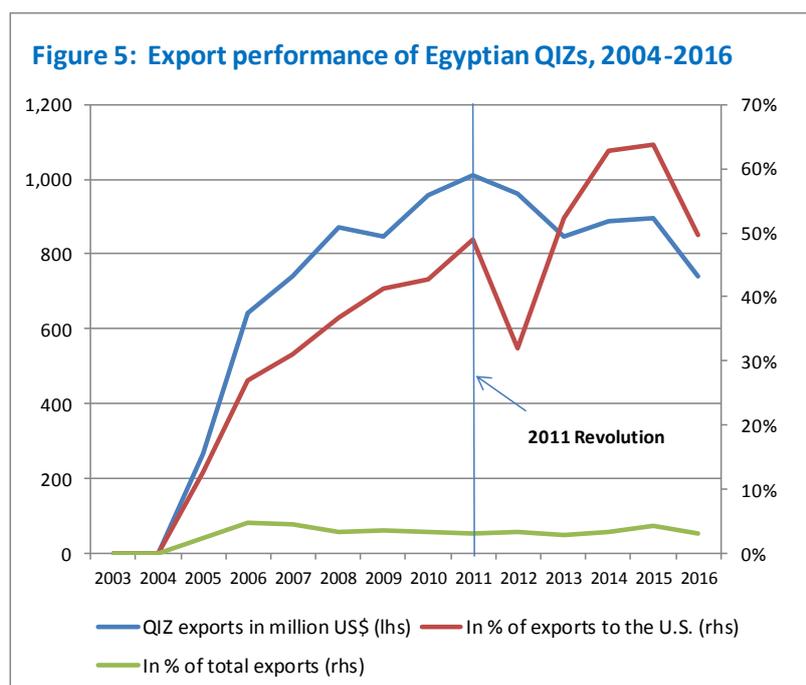


Source: IMF, Direction of Trade statistics

Another shortcoming of the QIZs is that it did not create significant positive spillover effects for the rest of the economy—be it through links between exporters and domestic suppliers (since most inputs were imported due to the low local content requirement), the transfer of new technologies or the upgrading of the skills of Jordanian workers. To a large extent, the QIZs represented a ‘tariff-jumping’ or ‘quota-hopping’ investment by Asian producers that sought preferential access to the U.S. market. After the reasons for quota-hopping disappeared along with the ATC, Jordan’s textile and apparel exports entering the U.S. market under the QIZ program declined rapidly, as noted. However, they have largely been replaced by exports growing under the U.S.-Jordan FTA, which have taken advantage of the investments and infrastructure developed under the QIZ initiative (see Figure 3). This has allowed the United States to maintain its dominant position among Jordan’s export markets despite the virtual disappearance of QIZ exports. As can be seen from Figure 4, the share of the United States in Jordan’s total exports, which had risen markedly from only 3% in the decade before the boom in QIZ exports to 22% in the 2001-2007 period (peaking, as noted, at about 25% in 2004-2005), was still 18% in 2008-2016 despite the sharp decline in exports entering the United States under the QIZ regime. To the extent that it provided a production base for the exploitation of the advantages subsequently offered by the FTA with the United States, the development of the QIZs can, therefore, be said to have had a more lasting effect.

Egypt’s experience with the QIZ program was somewhat different but, by and large, positive (Ghoneim and Awad 2010; Refaat 2006). Egypt only joined the scheme, as noted, in 2004, that is, seven years after the offer was extended by the United States, partly reflecting political reluctance to cooperate with Israel. But the initial success of the QIZ initiative in Jordan, together with the fear that the expiration of the ATC in 2015 would open up fierce competition from Asian countries in the U.S. market, eventually persuaded Egypt to enter the QIZ programme. Indeed, under the MFA, Egypt had enjoyed the shelter of a generous quota but, as noted, textile and garment quotas were to be fully dismantled for all countries by the ATC upon its expiration.<sup>38</sup> Contrary to Jordan, Egypt already had a well-developed domestic textile and clothing industry and the QIZ program has helped to preserve its textile and apparel exports after the expiration of the ATC.

<sup>38</sup> For the considerations that led Egypt to eventually join the QIZ programme, see Ghoneim and Awad (2010; pp. 6-7) and Refaat (2006; pp. 4-8).



Sources: USITC Dataweb and IMF Direction of Trade statistics.

Egyptian QIZ exports grew rapidly after Egypt joined the QIZ programme and, by 2011, they already accounted for approximately half of Egyptian exports to the United States (see Figure 5).<sup>39</sup> Egyptian QIZ exports, like Jordan QIZ exports, are dominated by apparel products. But, in contrast to Jordan, most workers in the Egyptian QIZs are Egyptian, partly because Egypt’s labour law limits foreign workers to no more than 10% of a firm’s labour force. The United States and Egypt are currently considering a reinvigoration of the QIZ programme, including by reducing the required share of Israeli input and by including new zones to the QIZ agreement (see Allan, 2017).

Overall, the QIZ program, despite its shortcomings, has contributed significantly to increasing the share of the beneficiary countries’ exports to the U.S. market, generating jobs, investment, and GDP, a view that is also supported by some cross-country empirical studies.<sup>40</sup>

## 6. The Experience with AGOA

Another recent experience with a unilateral preferential trade arrangement that is relevant for the purpose of this paper is the African Growth and Opportunity Act (better known as AGOA), adopted by the United States for Sub-Saharan African countries in 2000 and hailed as a historical change of approach in the U.S. strategy to promote economic development in Africa.<sup>41</sup> The AGOA experience is

<sup>39</sup> QIZ exports, like other Egyptian exports, were negatively affected by the social instability and economic disruptions that followed Egypt’s 2011 revolution (see Figure 5).

<sup>40</sup> See, for example, Carter et al. (2015), who found that U.S. preferential trade arrangements had, overall and particularly in the case of the QIZ program for Jordan and Egypt, contributed to increasing the shares of exports of the beneficiary countries to the U.S. market. They found, however, that the strength of these effects varies over time, rising and remaining positive during a period of about 8–12 years but turning negative thereafter.

<sup>41</sup> The AGOA has been renewed several times by Congress, most recently through the Trade Preferences Extension Act, passed in June 2015, which extended it until 2025.

relevant both because it covers many of the world's top refugee-hosting countries and because, like the EU-Jordan Compact and the QIZ scheme, it entails an easing of the applicable rules of origin.

### **6.1 Overview of the AGOA framework**

At present, AGOA is being applied to 42 of the 49 Sub-Saharan African countries. To receive AGOA's trade benefits, countries must be eligible for the U.S. GSP.<sup>42</sup> In addition, they must demonstrate progress with market-based reforms, a liberal trade and investment regime vis-à-vis the United States, respect for the rule of law and democracy, good governance and the protection of internationally recognized human rights, including labour rights. AGOA trade preferences have been withdrawn from quite a few countries when they were deemed to fail to comply with these conditions but they were restored (or granted for the first time) when political conditions improved. The frequent change in the list of eligible countries reveals an active use by the United States of the AGOA preferences as an instrument of foreign policy and as an incentive to promote governance reform in the region.<sup>43</sup>

AGOA essentially expands the number of products that can enter the United States free of duties beyond those normally covered by the GSP. Under the U.S. GSP, which applies at present to 120 countries and territories, including the Sub-Saharan African countries, approximately 3,500 product lines, out of a potential 7,200, are eligible for duty-free treatment.<sup>44</sup> And additional 1,500 tariff lines are granted duty-free access for the least developed countries, for which the United States (like the EU) has a more generous version of the GSP. However, by statute, the GSP excludes some products that are key for developing countries such as most apparel, many textiles, footwear, luggage, handbags and certain agricultural products, which are viewed by the U.S. Congress as particularly sensitive. AGOA makes an extra 1,800 tariff lines duty free, although a large share of these are already included in the special GSP for the least-developed countries. The additional products covered by AGOA include certain agricultural and manufactured goods such as processed food, some apparel and footwear products (which are not eligible for duty-free access even under the GSP for the least developed countries). These happen to be labour-intensive products in which refugees often have, or can rapidly acquire, skills. AGOA beneficiaries are also exempt from certain caps on allowable duty-free imports (known as "competitive need limitations"), which are triggered under the GSP once a threshold of imports of a sensitive product has been reached. On the other hand, AGOA continues to leave out some key manufacturing products that face relatively high MFN tariffs, including some textiles, certain glass products and headwear, as well as a range of high-duty agricultural products, and continues to subject to tariff quotas about 120 of the additional agricultural products it liberalised.<sup>45</sup>

In addition, AGOA eases the rules of origin for apparel products for the least developed countries. These special rules of origin, called the "third country fabric provision," allow apparel producers in beneficiary countries to use (often less expensive) "third country fabrics," such as cloth and yarn from

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<sup>42</sup> In addition to the unilateral trade preferences, AGOA foresees a strengthened dialogue and cooperation between the U.S. and AGOA countries on trade and investment matters, including through the establishment of the so-called AGOA Forum, the provision of trade-related technical assistance and the conclusion of bilateral investment promotion frameworks. It also includes specific guidelines on U.S. development assistance to those countries.

<sup>43</sup> For the list of currently eligible countries and the history of its changes, see US Department of Commerce, "General Country Eligibility Conditions" (<https://www.trade.gov/agoa/eligibility/index.asp>).

<sup>44</sup> The US tariff schedule has a total of 10,700 separate lines, of which roughly 3,500 are permanently free of duties under the MFN tariff schedule (i.e., all WTO members may export them to the U.S. duty free), so the maximum number of lines that are eligible for preferential treatment is about 7,200.

<sup>45</sup> Products subjected to tariff quotas enter under a zero or preferential rate below the quota but under a higher (often very high) tariff in excess of that amount. More than 200 agricultural tariff lines, representing 17% of the dutiable agricultural tariff lines, do not enjoy preferences under either the US GSP or AGOA. For a detailed description of AGOA's trade preference provisions, see Condon and Stern (2011) and Williams (2015).

China, India, Pakistan and other developing countries, rather than solely locally- or American-made cloths. Indeed, under the GSP, the United States applies rather restrictive rules of origin that require garment exporters to use either locally produced or U.S.-produced fabrics to benefit from preferential access to the U.S. market. Since the majority of AGOA countries benefit from the least-developed country version of the U.S. GSP, most of them can in principle take advantage of the “third country fabric provision” under AGOA.

AGOA covers, as noted, many of the top refugee-hosting countries in Sub-Saharan Africa and in the world. Six out of the top 14 refugee hosts in the developing world are currently eligible for AGOA (see Table 3 in Section 8 of this paper). AGOA also includes many of the top sources of refugees and IDPs. On the other hand, it currently excludes some of the main host and source countries (notably the Democratic Republic of Congo, Somalia, South Sudan and Sudan), which suggests a potential for a geographical extension of the programme to try to address refugee and other forced displacement pressures, although the same political considerations that led the United States to exclude those countries from AGOA may, of course, continue to constrain such a decision. Overall, Sub-Saharan Africa hosts almost one third of the refugees living in the developing world and is the source of a similar share of the refugees and IDPs generated by developing countries (taking into account only internal displacements caused by conflict and generalized violence, not those caused by natural disasters). The corresponding proportions for the currently eligible AGOA countries are, however, significantly lower (about 23% and 11%, respectively), reflecting the important role in forced displacement played by the Sub-Saharan African countries that are excluded from AGOA (Table 2).

**Table 2: AGOA countries as hosts and as sources of forcibly displaced people, end-2016**

(in million and in percent of world's total)

	As a host of refugees <sup>1</sup>		As a source of:			
	Million	Share (%)	Refugees	IDPs <sup>2</sup>	Total refugees + IDPs	
			Million	Million	Million	Share (%)
<b>AGOA countries<sup>1</sup></b>	4.0	23.2	2.3	3.7	6.0	10.5
<b>Total Sub-Saharan Africa</b>	5.1	29.9	6.0	12.2	18.2	31.6
<b>World</b>	17.2	100	17.2	40.3	57.5	100
<i>Memorandum item:</i>						
Total of D.R. of Congo, Somalia South Sudan and Sudan	1.1	6.7	3.6	8.5	12.1	21.1

Sources: UNHCR, *Global Trends 2016, 2017*; and IDMC, *Global Report on Internal Displacement*, 2017.

(1) AGOA eligible countries as of 26 April 2018.

(2) Refugees and people in refugee-like situations as estimated by UNHCR. Excludes 5.3 million of Palestinian refugees under UNRWA's mandate.

(3) IDPs refers only to Internally displaced people due to political conflict and generalised violence.

## 6.2 Performance under AGOA

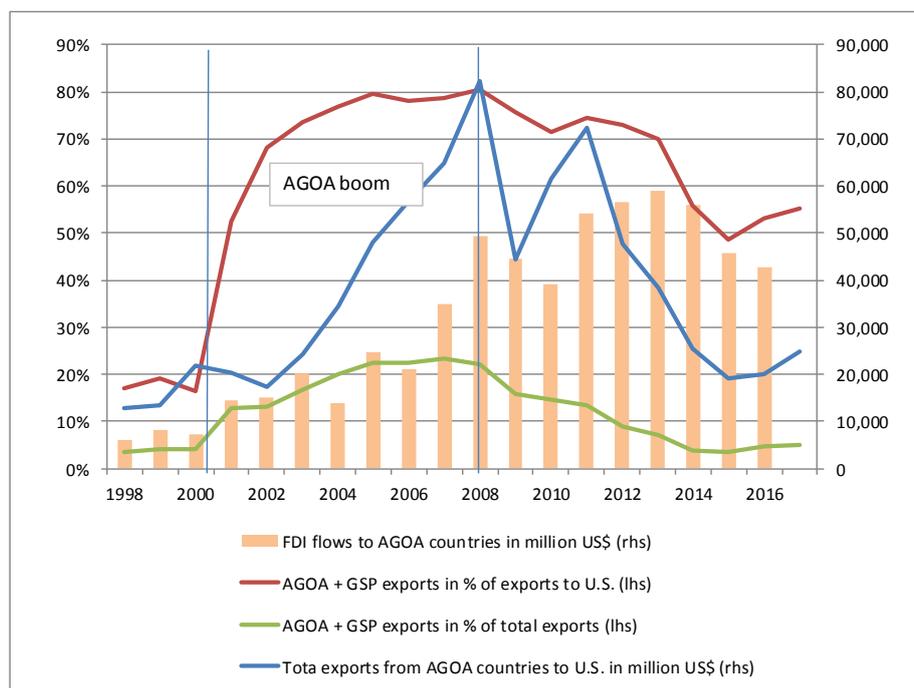
So how well has the AGOA programme worked and does this experience suggest a potential for using trade preferences to support refugee employment?

AGOA is often seen as a success story, although this is partly due to the strong performance of total exports from AGOA countries to the United States in its first eight years of operation. Indeed, between 2000 and 2008, aggregate exports from AGOA eligible countries to the United States jumped

from USD 22 billion to USD 82 billion (see Figure 6) and their share in total exports from AGOA countries also rose substantially. This increase in export values between 2000 and 2008 was amply explained by exports entering the United States under the AGOA and GSP preferences, which rose by nearly USD 63 billion and increased their share in these countries' exports to United States from 16% to 80%.<sup>46</sup> Empirical studies based on the performance of AGOA in its first decade generally found positive effects on overall exports from, and employment in, Sub-Saharan Africa, with some clear success stories in certain products and certain countries. These include econometric modeling studies that tried to control for other factors. Thus, Fayissa and Tadesse (2007) and Frazer and Van Biesenbroeck (2010), using gravity models, and Nouve (2005), using a dynamic panel trade model, all found that AGOA had a positive impact on aggregate exports from AGOA countries, while Cooke (2011) concluded that AGOA had contributed to increase aggregate non-energy exports to the United States. Moreover, Frazer and Van Biesenbroeck (2010) found that this expansion in exports did not result merely from a redirection of exports from other markets (notably the EU).

Regarding employment creation, a survey conducted by the UN Economic Commission for Africa (Karingi et al., 2012) found that AGOA had had a positive impact: 75% of the respondents found that AGOA had expanded employment as a result of the preferences granted by AGOA.<sup>47</sup> Concerning foreign direct investment (FDI), there was indeed a strong expansion (although it is hard to ascertain the reasons behind it): U.S. FDI flows to AGOA countries rose four-fold between 2001 and 2007 to USD 9.5 billion (according to UNCTAD statistics) and total FDI to the region increased from USD 7.4 billion in 2000 to nearly USD 50 billion in 2008 (see Figure 6, which displays FDI data from UNCTAD).

Figure 6: Export and investment performance under AGOA-GSP, 1998-2017<sup>1,2</sup>



Sources: USITC Dataweb; IMF Direction of Trade statistics; UNCTAD.

<sup>46</sup> Because the AGOA and GSP tariff lines partly overlap, the analysis of AGOA performance is often conducted by looking at both jointly. Between 2000 and 2008, AGOA exports proper increased from zero to USD 56 billion.

<sup>47</sup> For a comprehensive survey of the early empirical literature on the impact of AGOA, see Condon and Stern (2011). Frazer and Van Biesenbroeck (2010), Cooke (2011) and Froman (2016) also provide useful reviews of the literature.

AGOA has had a particularly strong effect on garment exports, reflecting high preference margins and the special apparel provision. This is confirmed by many empirical studies (e.g. Collier and Venables, 2007; Frazer and Van Biesebroeck, 2010; Tadesse and Fayissa, 2008). With the average U.S. applied tariff on apparel being, as noted, very high (11.6%), the least developed AGOA producers benefiting from the special apparel provision have been able to compete even with the lower-cost producers of Asia. And this expansion of apparel exports has gone hand-in-hand with a significant creation of local employment, given this sector's labour intensity. For instance, Lesotho recruited about 16,000 workers (a 36% increase in employment) in the first two years of AGOA certification, mostly in the textile, clothing and footwear sectors (Páez et al, 2010; p. 16). And a major Kenyan apparel factory located within a government-supported Export Processing Zone near Nairobi added thousands of jobs because of the extension of the AGOA and is currently supplying cloths to several major U.S. retail chains (Froman, 2016). Moreover, as in the QIZ factories in Jordan, many of the jobs in Lesotho's and Kenya's apparel industry have gone to women, helping to raise their labour force participation and improve their livelihoods.

Other success stories of AGOA include the impressive expansion of South African exports to the United States (notably of automobiles and auto parts and of agricultural products such as citrus fruits and nuts), Kenyan macadamia nuts and Ethiopia's footwear (Froman, 2016).

But this would be an overly positive reading of the evidence on the impact of AGOA. First, the strong performance of exports in the first eight years of AGOA was largely driven by oil (supported until 2008 by the upward trend in oil prices) and, at least until 2004, apparel and textile products. This is evident in Figures 7 and 8. Exports to the United States from AGOA countries remain dominated by oil, which accounts for about 84% of their AGOA-GSP exports to the United States since the inception of AGOA and still accounted for 60% of them in 2014-2017, despite the marked decline experienced in oil prices since 2014. Indeed, the diversification of exports provoked by AGOA has been more limited than initially hoped for.<sup>48</sup> While AGOA strongly stimulated, as noted, apparel exports, oil exports were already subjected to a very low tariff prior to AGOA and, therefore, AGOA is unlikely to have been a significant factor explaining the expansion of oil exports from AGOA countries in the 2000-2008 period.<sup>49</sup> Despite their considerable potential, agricultural exports have not developed much under AGOA (with some exceptions such as those mentioned above) because, as noted, quite a few key products were either excluded from the AGOA preferences or remain subject to tariff quotas, and also because the average preferential margins for the liberalised agricultural products were small (Brenton and Ikezuki, 2004).<sup>50</sup>

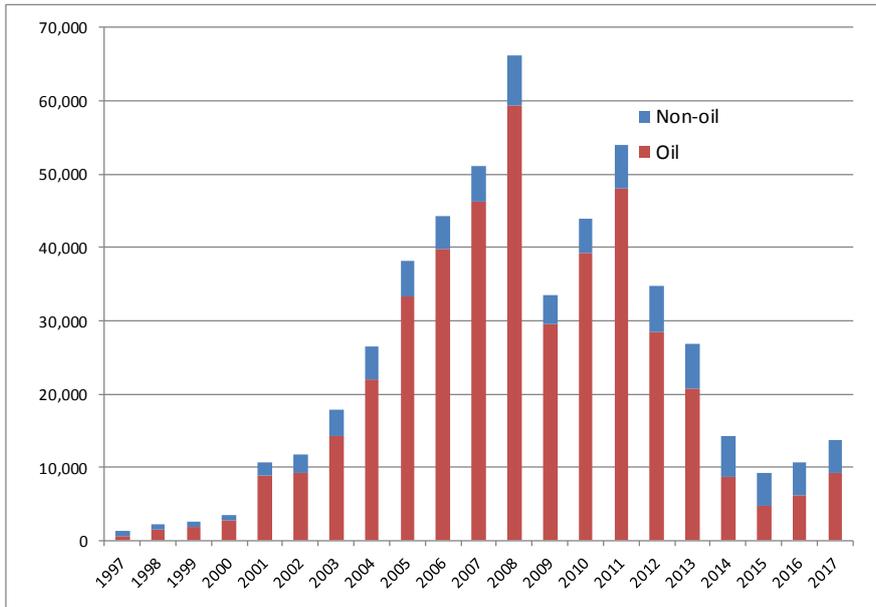
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<sup>48</sup> The study by Tadesse and Fayissa found, however, that AGOA had a statistically significant "trade initiation effect," that is, it had contributed to the initiation of exports in new sectors. By contrast, they found its "trade intensification effect," i.e., the extent to which it had contributed to increase existing exports, to be marginal. Cook and Jones (2014) also found that AGOA, and in particular its apparel provision, had increased export diversification, including in non-apparel goods. They found that, in the case of countries eligible for the apparel provision, approximately 70% of the new additional products exported were non-apparel products.

<sup>49</sup> While petroleum products faced an average tariff of less than 1% before AGOA, MFN tariff rates for the top four apparel products exported by AGOA countries to the United States ranged between 16.8% and 17.3% prior to AGOA (see Condon and Stern, 2011; pp. 31-32).

<sup>50</sup> Most available empirical studies find that AGOA had no impact on *overall* agricultural exports from eligible countries (see, for example, Zenebe, 2013 and Nouve and Staats, 2003). Zenebe (2013) and Frazer and Van Biesebroeck (2007) found a positive but modest impact on agricultural exports *to the United States*.

**Figure 7: Exports from AGOA countries to the U.S. under AGOA and GSP<sup>1,2</sup>**  
(in million of U.S. dollars)

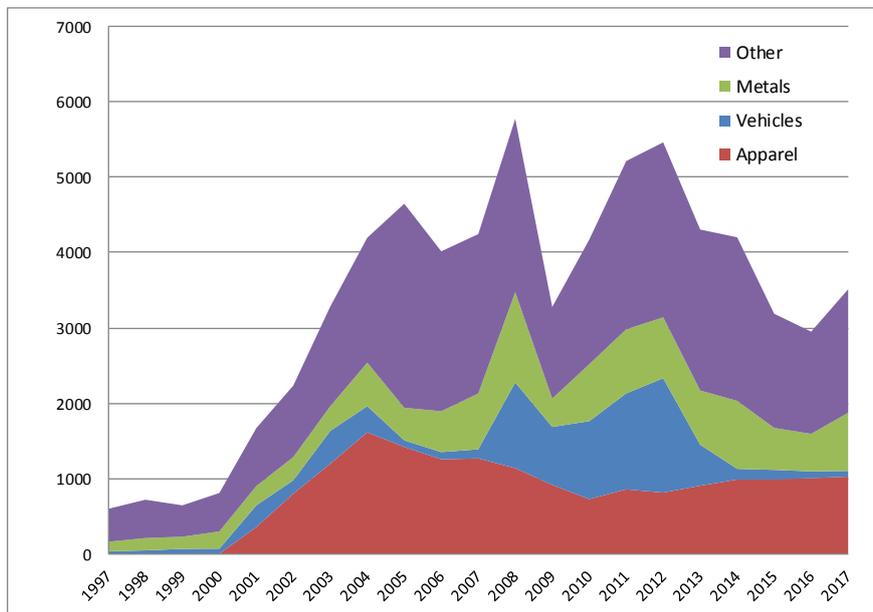


Source: USITC Dataweb.

(1) Based on the AGOA-eligible countries as of end-April 2018.

(2) On an imports for consumption basis.

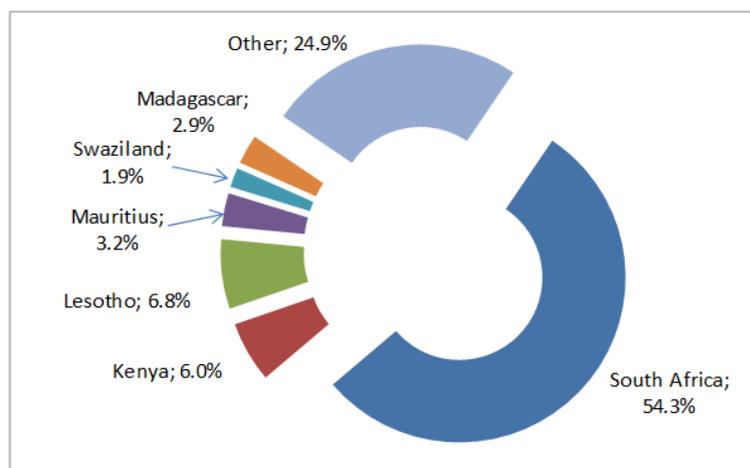
**Figure 8: Non-Energy Exports from AGOA countries to the U.S. under AGOA and GSP<sup>1</sup>**  
(in million of U.S. dollars)



Source: USITC Dataweb.

(1) Based on the AGOA-eligible countries as of end-April 2018.

**Figure 9:**  
**Top AGOA-eligible non-energy exporters under AGOA and GSP, 2001-2017<sup>1,2</sup>**  
 (shares in total non-oil exports under AGOA and GSP)



(1) Based on the AGOA-eligible countries as of end-April 2018.

(2) On an imports for consumption basis.

Another shortcoming of AGOA is that exports have until now been concentrated in only a few countries. They are dominated by South Africa, the most advanced country in the region, which accounts for about 54% of non-oil exports to the United States under the AGOA and the GSP since AGOA's inception. Only the garment industries of a handful of countries (Kenya, Lesotho, Mauritius, Madagascar and Swaziland) have managed to exploit the opportunities offered by AGOA. Together with South Africa, these five apparel producers account for about 75% of the non-oil exports of AGOA countries to the United States (see Figure 9).

Furthermore, since 2009, exports from AGOA eligible countries to the United States (whether one looks at aggregate exports or exports under the AGOA and GSP regimes) have declined substantially (see Figures 6 and 7). In fact, apparel exports already started to decline in 2005. Indeed, similarly to what happened with Jordanian exports under the QIZ programme, after a phenomenal expansion in the first five years of AGOA, apparel exports were negatively affected by the complete phase-out on 1 January 2005 of the quotas imposed by the MFA/ATC, which increased competition in the U.S. market from Asian producers (see Figure 8). Then, starting in 2009, oil exports have also been on a distinct downward trend (Figure 7), reflecting both the decline in oil prices (especially since 2014) and the increased production by the United States of shale oil, which is a direct competitor of the oil exported by some Sub-Saharan African countries due to its similar composition.

The positive impact of the development of sectors such as apparel on the wider manufacturing sectors and on the overall competitiveness of eligible countries seems to have been less pronounced than authors such as Collier and Venables (2007) were hoping for. In particular, the apparel production triggered by the AGOA is concentrated on the lowest-skill tasks and, as in the case of Jordan's QIZs, seems to have had limited dynamic spillover effects, for example in the form of transfer of knowledge or technology to workers or other companies (Edwards and Lawrence, 2010). Moreover, FDI into this sector is very mobile and can be rapidly dismantled once the preferential margins are eroded, as illustrated by the short-lived experience of some Caribbean countries under another U.S. preferential regime, the Caribbean Basin Initiative. While much of the new industrial base for apparel exports developed by a few countries as a result of the AGOA preferences has so far survived the elimination of the MFA/ATC quotas, contrary to what many observers predicted at the time, the manufacturing sectors of many AGOA beneficiaries, notably among the poorest countries, remain underdeveloped.

One significant constraint impinging on AGOA exports to the United States, highlighted by the literature (see, for example, Páez et al, 2010), is the difficulties they experience in meeting the U.S. sanitary, phytosanitary, and technical standards. Similarly, complying with the documentary requirements related to the rules of origin, notably the extra requirements for benefitting from the special apparel rule, has proved challenging for some countries. This has happened despite the substantial trade-related technical assistance provided by the United States to help AGOA countries meet product standards and build capacity.

Regarding the impact of AGOA on foreign investment, following the strong increase in FDI flows witnessed in the first eight years of AGOA's life, total flows to Sub-Saharan Africa have fluctuated around their 2008 peak, without showing a distinct trend (see Figure 6). Some authors (e.g., Mutenyo and Moyo, 2010) believe that the uncertainty created by the relatively short periods between periodic re-authorisations by U.S. Congress of the AGOA legislation and the frequent withdrawal (and reinstatement) of countries from the list of eligible countries has increased uncertainty over the duration of the preferences, discouraging longer-term investment. Some private sector actors have called for longer reauthorization periods (i.e., 10-15 years) for all AGOA preferences, including the third country fabric provision, so as to facilitate investment planning.<sup>51</sup> AGOA's eligibility criteria and the rigorous and political interpretation of them by the U.S. administration, which has contributed to the frequent changes in the list of eligible countries, has also increased investor uncertainty. Indeed, since the launching of AGOA, 22 countries were added to the list of eligible countries and 14 removed from it.

The lack of predictability may have also contributed to AGOAs' disappointing results in terms of regional economic integration within Sub-Saharan Africa. While AGOA, notably through its third country fabric provision, was expected to encourage the development of regional supply chains because inputs from neighbouring AGOA beneficiaries can be counted as local input, the strategy of relying on neighbouring AGOA countries as suppliers or buyers of intermediate goods can prove risky if a neighbour is subsequently excluded from AGOA. Madagascar's emerging apparel industry is a case in point. Lesotho, Mauritius, South Africa and Swaziland, which were providing fabric and other inputs to the Madagascar apparel firms, were very negatively affected when Madagascar was suddenly excluded from AGOA in January 2010, following an undemocratic change in government (see Moyo and Page, 2010).

In sum, the experience with AGOA, like that with the QIZ, shows both the power and the limitations of trade preferences. It shows that trade preferences can trigger strong and rapid export and employment responses in those sectors where the preferential margins created are truly attractive and where the rules of origin are flexible enough. At the same time, it warns about the long-term sustainability of these responses, particularly at the macroeconomic level, and raises some doubts about their transformative, durable effects on productivity, export performance and economic development.<sup>52</sup> This should not be surprising since there is a wide consensus in the academic literature that the main factor behind Africa's poor economic performance were not trade restrictions but internal constraints such as distorted product and credit markets, high transport costs partly due to natural barriers to trade, inadequate infrastructure, weak governance and political instability (see, for example, Collier and Gunning, 1999 and Rodrik, 1998).

Having said that, the effective use of trade preferences for refugee policy does not absolutely require that their effects be very long-lasting or powerful from a macroeconomic point of view. It suffices that they help create, in a relatively short period of time and for a significant number of years,

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<sup>51</sup> See The Corporate Council of America (2013; pp. 18). The first and second authorisations of the AGOA preferences lasted only 8 and 7 years, respectively. In order to increase the predictability of the regime and encourage greater capital investment, the last renewal was done, as noted, for 10 years (until 2025).

<sup>52</sup> This is consistent with the results of the study by Carter et al. (2015), mentioned at the end of Section 5, which found that the positive effects of U.S. preferential trade arrangements lasted for about 8-12 years but then faded away.

substantial numbers of jobs for refugees in a number of sectors that fit well with the refugees' skills and that are easily accessible from areas where large populations of refugees live, including refugee camps. In this respect, the AGOA experience, like the QIZ, is encouraging because it triggered a strong and quick export and employment response in certain labour-intensive, technologically unsophisticated sectors, such as apparel and footwear, where refugees have or can easily acquire the necessary skills. Moreover, as underlined by the literature on AGOA, the impact could have been stronger and more lasting if the product coverage of AGOA had been wider and more generous, in particular regarding the preferences granted to the agricultural sector, which is another sector in which refugees traditionally work.

## **7. Making Trade Preferences Work**

The experience with the QIZs and AGOA suggests that trade preferences can have, if properly designed, powerful export and employment-generating effects and, therefore, underlines their potential as a tool for refugee policy. Moreover, when compared to aid, preferences have the advantage of being financially costless as an instrument of refugee protection and development policy for the advanced countries granting them.<sup>53</sup> At the same time, the problems witnessed with the QIZ programme and AGOA and the so far disappointing impact of the EU's rules of origin scheme for Jordan warn about the limits and possible drawbacks of this type of preferential arrangements. The main lessons from these three experiences can be summarized as follows:

First of all, trade concessions to refugee-hosting countries will only generate substantial jobs for refugees if they create sufficiently attractive preferential margins and if those margins are not eroded over time through subsequent changes in trade policy benefiting key competitor countries. In the case of the QIZs and AGOA, those trade incentives were very strong for the apparel sector before the MFA textile quotas were phased out and, as a result, they produced an impressive export and employment response. In the case of the preferences granted under the EU-Jordan Compact, they were not. But in both the QIZ and AGOA cases, the preferences enjoyed by the textile and garment industry were watered down significantly once the elimination of textile quotas further opened the U.S. market to Asian competitors.

Secondly, despite the disappointing impact of the EU-Jordan scheme to date, rules of origin are essential for the effectiveness of trade preferences. This is clearly illustrated by the successful experience with AGOA's "third country fabric provision." Indeed, as stressed by Collier and Venables (2007), in an increasingly globalized world characterized by production processes that are highly fragmented and spread across countries, for trade preferences to work countries must be able to concentrate on the stage of the production process (often a narrowly defined task) where they have a comparative advantage. This is facilitated by, and often requires, liberal rules of origin.

Thirdly, beneficiary companies must be sufficiently competitive and have the necessary marketing networks. They must also comply with the technical standards imposed by developed countries, a factor that, as noted, has acted as a constraint both in the EU-Jordan Compact scheme and in AGOA. This underlines the importance of complementing trade preferences with technical and financial assistance from foreign donors to help beneficiary firms become competitive and meet technical standards.

Fourthly, for trade concessions to impact refugee employment, refugees must have the appropriate skills to work in the sectors targeted by them. This can be achieved both by providing appropriate

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<sup>53</sup> From the point of view of the beneficiary country, trade preferences can also be superior to alternative policies of industrial development and job creation such as tariff protection and subsidies to domestic production because they tend to generate less rent-seeking and corruption, impose quality and price discipline through international competition and entail no budgetary cost (see Collier and Venables, 2007; pp. 1332-1334).

training to the refugees and by making sure that the preferences cover those tradable sectors where refugees already have professional experience. Regarding training, while international donors can help, notably by supporting technical and vocational education, access by refugees to the educational system of host-countries can be more important and should be an essential component of refugee compacts.

Regarding the choice of sectors, donor countries should overcome the resistance of their national lobbies to extend trade preferences to sensitive products where refugees have working experience and can be easily employed. These will often include labour-intensive sectors such as apparel, footwear and craftwork. Apparel production may be particularly apt for facilitating refugee integration since, unlike textile production, it requires low-skilled labour and minimal capital expenditures, allowing developing countries to become globally competitive. But agricultural products are another good option. For example, in the case of the Syrian refugees living in Jordan, consideration could be given to granting trade preferences for agricultural products, given that refugees are active in this sector. One option would be, as argued above, to extend to processed agricultural goods the EU's special rules of origin scheme for Jordan. Many refugees in Sub-Saharan African are also experienced in the agricultural sector and, as the AGOA literature underlines, there is substantial scope for improving the preferential treatment of agricultural products. Moreover, some Sub-Saharan countries have distributed (e.g. Uganda) or are planning to allocate (e.g. Chad, Ethiopia and Kenya), idle land to refugees, putting them in a good position to take advantage of new preferences directed to the agricultural sector.<sup>54</sup> And what may not work for one country may work for others. Thus, while the fact that many Syrian refugees experienced in the garment industry have fled to Turkey and Lebanon was, as noted, a drawback in the implementation of the EU-Jordan Compact, it could facilitate the application in these countries of preferential schemes targeting that industry. On the other hand, trade preferences will not be a suitable policy instrument for certain sectors for which refugees often have the right skills and working experience but that do not produce tradeable goods (e.g. the construction and home service sectors). In those cases, other instruments should be used to encourage the employment of refugees.

Refugees must also have the appropriate incentives to work in the zones or sectors targeted by the trade preferences, in terms of pay, transport costs, cultural attitudes and, last but not least, working conditions. The importance of limiting transport costs and facilitating accessibility to the workplace is an argument in favour of providing trade preferences to economic development zones located very close to refugee camps or for transforming refugee camps into economic zones that can benefit from the trade preferences.<sup>55</sup> Indeed, the idea of taking advantage of the proximity between the Zaatari refugee camp in Jordan (the largest one in Jordan, hosting about 80,000 refugees) and the King Hussein Bin Talal Development Area, an economic development zone located only 10 miles from the camp and working well below its capacity, was one of the things that inspired the EU-Jordan Compact (see Betts and Collier, 2007; p. xii). But this remains tributary to the idea of organizing refugee protection on the basis of refugee camps, something the new approach to refugee protection tries, as noted, to overcome. While connecting economic development zones with existing refugee camps can be useful, the idea of lowering transport costs goes beyond this and is applicable regardless of where the refugees live. It is also related to the cultural attitudes toward women's employment, as discussed above. Facilitating access, including by developing safe public transportation, can be crucial in encouraging refugee women participation in the job opportunities supported by the trade preferences.

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<sup>54</sup> Ever since its independence in 1962, Uganda has supported the economic self-reliance of its large and long-standing refugee populations by giving them access plots of free land to cultivate (see Betts et al., 2017). Chad, Kenya and, as noted, Ethiopia have committed to do so as part of their application of the UN's CRRF.

<sup>55</sup> This would be similar to what Kenya did in 2015 when it built the Kolabeyei refugee settlement next to the huge Kakuma refugee camp, after the latter far exceeded the population it was designed to host (see <http://www.unhcr.org/ke/kakuma-refugee-camp>).

Moreover, the experience of the EU-Jordan Compact warns about putting too much emphasis on economic development zones as part of a strategy to encourage refugee employment, whether the latter is based on trade preferences or on other incentives. While clustering and economies of scale tend to support relying on such zones, these advantages might be more than compensated by the constraints that they entail.

Regarding working conditions, the Jordanian experience with the QIZ programme warns about the importance of ensuring that efforts to stimulate refugee employment do not result in a deterioration of working conditions. It is encouraging, in this respect, that some preferential schemes adopted after the QIZ programme, notably AGOA and EU's special rules of origin for Jordan, have tried to avoid this problem by including respect for international labour standards as an eligibility condition and/or by involving the ILO in their monitoring. The ILO can certainly make a useful contribution here and is already stepping up its involvement in labour conditions in the context of refugee situations.<sup>56</sup>

It is also important that host countries remove any regulations (such as sectoral quotas or work permit restrictions) that hinder the participation of refugees in their labour markets, notably, though not only, in the sectors targeted by the trade concessions.

Finally, as suggested by the experience with EU-Jordan agreement on rules of origin and the AGOA, in order to increase predictability and encourage investment (and therefore the recruitment of refugees) in the sectors benefiting from the special preferential trade arrangements, it is important that trade preferences schemes be adopted for a sufficiently long period of time.

If a majority of these preconditions are met, trade preferences stand a good chance of working. However, whether a strategy of refugee integration based on trade preferences, or more generally a strategy of economic empowerment and self-reliance of refugees, is politically feasible will depend on the particular politics and history of the host country. What can work for Jordan or Uganda, may not work for Lebanon, as noted above. Indeed, host countries may be reluctant to grant refugees the right to work formally because this may be seen to imply that refugees are welcome to stay indefinitely rather temporarily. From an economic point of view, populations in countries of first asylum, especially those experiencing high unemployment, may regard refugees as competitors for the few jobs available. Refugees also compete with locals for access to public services, as well as for subsidized food and energy. Even though the presence of refugees can also create economic opportunities for the local population, including by increasing demand for local goods and services (Maystdt and Vervimp, 2014; Taylor et al., 2016), local opposition to measures seen as privileging refugees, such as trade preferences for companies employing refugees, may be significant.<sup>57</sup> Indeed, while some local groups might benefit from the preferential trade arrangements others are likely to lose. Any attempt to introduce a programme of trade preferences to encourage the labour market integration of refugees should, therefore, weigh carefully this type of political and political economy considerations.

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<sup>56</sup> This is part of a new strategy towards refugees and host communities developed by the ILO in recent years, which is consistent with the developmental approach to refugee protection and which also includes labour market integration actions such as training, income-generating projects and advocating the removal of regulations that limit refugees' right to formal employment. For the application of this approach to the Syrian refugee crisis, see ILO, UNDP and WFP (2017). As part of these efforts, the ILO adopted in 2016 a set of "Guiding principles on the access of refugees and other forcibly displaced persons to the labour market" (<https://bit.ly/2PJO471>).

<sup>57</sup> For a discussion of the political, social and economic obstacles to the labour market integration of refugees in countries of first asylum, see MEDAM (2018; pp. 102-104) and Zetter and Raudel (2016).

## 8. What is the Actual Room for Improving Preferential Treatment?

In considering the use of trade preferences as a strategy to support refugee employment in countries of first asylum, it is also important to understand what is the actual room for improving the preferential treatment granted to the developing countries where the world's refugee population is concentrated. Unfortunately, the margin available to do that is not very large because most of those countries already enjoy preferential access to the developed country markets, either in the context of unilateral arrangements such as the GSP and AGOA or of bilateral free trade agreements. To illustrate this, Table 3 displays the preferential arrangements that the EU and the United States have with the 20 main refugee-hosting countries classified as low- and medium-income countries. These countries together account for 87% of the refugees living in the countries included in those income categories (and for almost 75% of the world's population of refugees), as estimated by the UNHCR. These are all countries hosting each more than 200,000 refugees.

**Table 3: Top 20 refugee-hosting developing countries and preferential trade arrangements<sup>1</sup>**  
(as of end-2016 for refugee data and as of April-2018 for trade arrangements)

Country	Number of refugees <sup>2</sup>	Income level	Preferential trade arrangements <sup>3</sup>	
			EU	U.S.
Turkey	2,869,421	Upper middle income	CU	GSP
Pakistan	1,352,560	Lower middle income	GSP <sup>+</sup>	GSP
Lebanon	1,012,969	Upper middle income	FTA	GSP
Iran (Islamic Rep. of)	979,435	Upper middle income	None	None
Uganda	940,835	Low income	GSP-EBA; EPA	GSP-LDBDC; AGOA
Ethiopia	791,631	Low income	GSP-EBA; EPA	GSP-LDBDC; AGOA
Jordan	685,197	Lower middle income	FTA; RoO	GSP; QIZ; FTA
Congo (Dem. Rep.)	451,956	Low income	GSP-EBA	GSP-LDBDC
Kenya	451,099	Lower middle income	GSP; ATP	GSP; AGOA
Sudan	421,466	Lower middle income	GSP-EBA	None
Chad	391,251	Low income	GSP-EBA	GSP-LDBDC ; AGOA
Cameroon	375,415	Lower middle income	EPA	GSP; AGOA
China	317,255	Upper middle income	None	None
Tanzania (Un. Rep. of)	281,498	Low income	GSP-EBA	GSP-LDBDC; AGOA
Bangladesh	276,207	Lower middle income	GSP-EBA	None
Yemen	269,783	Lower middle income	GSP-EBA	GSP-LDBDC
South Sudan	262,560	Low income	GSP-EBA	GSP-LDBDC
Iraq	261,888	Upper middle income	None	GSP
Egypt (Arab Rep.)	213,530	Lower middle income	FTA	GSP; QIZ
Russian Federation	228,990	Upper middle income	None	None
<i>Memorandum items:</i>				
Total countries above	12,834,946			
In percent of refugee population of:				
low- and middle-income countries	87.1			
the world	74.7			

Sources: UNHCR, *Global Trends 2016*; World Bank (classification of countries by income level based on Atlas method, 2017).

1) Low and middle-income countries only.

2) Refugees and people in refugee-like situations. Excludes 5.3 million of Palestinian refugees under UNRWA's mandate.

3) CU = Customs Union; GSP = Generalised System of Preferences; FTA = Free Trade Agreement; EBA = Everything But Arms; LDBDC = Least Developed Beneficiary Developing Country; AGOA = African Growth and Opportunity Act; RoO = rules of origin easing; QIZ = Qualified Industrial Zones programme; ATP = Autonomous Trade Preferences; EPA = Economic Partnership Agreements. Kenya, Tanzania and Uganda have also signed EPAs with the EU but are yet to be implemented.

Table 3 shows that only three of the top 20 refugee-hosting countries (China, Iran and Russia), all of them upper-middle income countries, do not currently benefit from trade preferences granted by either the EU or the United States. The rest enjoy generous preferential access through the GSP, the AGOA or bilateral FTAs. Access is particularly favourable for the least developed economies that qualify for the EU's GSP-EBA and for the variant of the U.S. GSP for the poorest countries (especially if they also benefit from AGOA).

Moreover, most of the countries that benefit from preferential access under the EU and/or U.S. GSP scheme also benefit from the other 11 existing GSP schemes, which are granted mostly by advanced countries (namely Australia, Belarus, Canada, Iceland, Japan, Kazakhstan, New Zealand, Norway, the Russian Federation, Switzerland and Turkey). In addition, China, India and South Korea have adopted special preferential regimes for least developed countries, although they have not been notified to the UNCTAD Secretariat as GSP schemes. Most of the low-income countries, and some of the lower-middle income countries, in Table 3 are covered by these three special schemes.<sup>58</sup>

The room for improving trade preferences is therefore constrained. Having said that, there is still margin, as discussed below, for making some of those preferential schemes more generous in terms of the number of products covered, the tariff reductions granted under them, the rules of origin applied, and, in some cases, the eligible countries. There is also room for increasing the policy conditionality of trade preferences, notably by linking them to increased efforts by beneficiary countries to integrate the refugees they host.

## **9. Some Policy Options**

The possible use of trade preferences to alleviate refugee crises in countries of first asylum has been discussed in a number of regional and multilateral fora in recent years. Thus, only a few months after the EU-Jordan Compact was first announced, the European Commission, in its Communication of June 2016 establishing a new Partnership Framework with Third Countries on Migration, suggested making migration cooperation a consideration in the forthcoming evaluation of trade preferences under the GSP<sup>+</sup>.<sup>59</sup> The issue was also mentioned in the Strategy for Global Trade Growth agreed by the G-20 in July 2016, following the suggestion of some of its member countries to consider trade-related steps that could be taken to support countries having to host an especially large number of refugees.<sup>60</sup> It has also been part of the discussions to prepare the UN's future Global Refugee Compact. More recently, and perhaps more significantly, Turkey, the top refugee-hosting country in the world, has raised the matter within the WTO.

This section explores several policy options to agree, either at multilateral level or by a group of interested countries, on the use of special trade preferences targeted to refugee-hosting countries.

### **9.1 Turkey's proposal**

In a letter sent on 17 August 2017 to seven key WTO members, including the EU, the Turkish economy minister suggested that the WTO should agree to grant preferential treatment to certain exports of countries hosting a large number of refugees, provided that they are manufactured by companies employing refugees. Turkey proposed that the WTO agrees to waive the obligation under its MFN clause to extend the same preferential treatment to similar products exported by other WTO

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<sup>58</sup> See United Nations Conference on Trade and Development (UNCTAD), "About the GSP" (<http://unctad.org/en/Pages/DITC/GSP/About-GSP.aspx>).

<sup>59</sup> See European Commission (2016b; p. 9).

<sup>60</sup> See "G-20 Strategy for Global Trade Growth," Annex II of the G-20 Trade Ministers Meeting Statement, Shanghai, 9-10 July 2016 (<http://www.g20.utoronto.ca/2016/160710-trade-annex2.html>).

members. The proposal was submitted, although in vaguer terms, to the WTO Ministerial Conference at Buenos Aires (MC11) in December 2017. While it has so far received a cautious reaction by WTO countries, it has helped bring to the fore again the possible use of trade policy measures to encourage the labor market integration of refugees.

Turkey's proposal would have the advantage of involving in principle all WTO members, although it might make sense to limit the trade preferences to countries above certain income thresholds (high income or, at least, upper middle income countries) and not being themselves important hosts of refugees. On the other hand, a challenge for the Turkish proposal is that it would have to be adopted by consensus by all WTO members under Article IX of the Marrakesh Agreement, which allows for waivers of certain obligations (including the MFN clause) under exceptional circumstances, such as a humanitarian crisis. It might not be easy to generate such consensus. Moreover, the preferential schemes would have to be temporary, as required by the Marrakesh Agreement. This could prove a significant limitation, as refugee crises tend to be, as noted, long-lasting.

While Turkey's proposal is stated in more general terms, a few words about its potential impact on Turkey, if adopted, are in order. Regarding Turkey's trade with the EU, its main trading partner, the impact would not be very important because its exports of all industrial goods and of many processed agricultural goods are already free of duties and quotas by virtue of its customs union with the EU (and no rules of origin apply to those products). It could, however, support Turkish exports to the EU of certain agricultural products (including some sensitive processed agricultural goods) that have not yet been liberalized, as well Turkish exports to other countries with which it has no preferential agreements. It would also facilitate its exports to the United States since the U.S. GSP excludes, as noted, a number of sensitive products with significant export potential for Turkey. Textiles and apparel are a case in point. Adding these sectors to the GSP preferences was, as noted, one of the main objectives of the original plan the U.S. administration had in 2002 to extend the QIZ initiative to Turkey. But the U.S. government's proposal was significantly watered down under pressure from the U.S. domestic textile, apparel and leather production industry even before it was blocked by the U.S. Congress for political reasons.<sup>61</sup> All these are products in which, as stressed, many Syrian refugees in Turkey have the necessary skills.<sup>62</sup> This illustrates how there is often room for improving preferential access in a manner relevant for refugee employment, even when countries already enjoy an important degree of preferential treatment in key markets such as those of the EU and the United States.

Similarly, the application of the Turkish proposal could bring significant gains to other refugee-hosting countries that do not already benefit from the least developed country versions of the GSP (complemented, in the case of the United States, by the AGOA and its apparel provision).

The need to obtain a waiver regarding the MFN is, as noted, a limitation of the Turkish proposal. But, in fact, this problem would apply to any non-reciprocal and discriminatory preferences granted in support of only some countries, e.g. to a group of key refugee-hosting countries. Indeed, both the AGOA and the unilateral trade preferences that the EU had granted under its Africa, Caribbean and Pacific (ACP) policy in the context of the Lomé and Cotonou agreements were seen as incompatible with the WTO. The United States solved the matter by requesting (and obtaining) in 2015 a temporary waiver from the WTO for AGOA under the above-mentioned Marrakech Agreement.<sup>63</sup> The EU has solved it through the negotiation of reciprocal free trade agreements with Sub-Saharan African groups of countries, the so-called Economic Partnership Agreements (EPA). The latter are covered by Article XXIV of the GATT 1994 and Article V of the GATS, which allow WTO Members to depart from the

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<sup>61</sup> See Bolle (2003).

<sup>62</sup> Indeed, many Syrian refugees with experience in the textile and garment industry of the Aleppo area seem to have fled to the area around the Southern Turkish city of Gaziantep, which has an important textile sector.

<sup>63</sup> The WTO granted the waiver for 10 years, that is, until the expiration of the reauthorization of the AGOA adopted by the US Congress in 2015. See [https://www.wto.org/english/news\\_e/news15\\_e/good\\_10nov15\\_e.htm](https://www.wto.org/english/news_e/news15_e/good_10nov15_e.htm).

MFN rule in the context of customs union or free trade area agreements, subject to certain requirements.

## **9.2 Reforming the GSP**

A variant of the Turkish option would be to focus on a reform of the GSP that would incorporate refugee policy considerations into the system. This option would have the advantage of not requiring a consensus among WTO countries. Indeed, under the so-called Enabling Clause of the GATT adopted in 1979, a permanent exception for the MFN principle was established, allowing countries to grant non-reciprocal preferences to developing countries provided that they are generalised and non-discriminatory, an exception that provides the legal base for the GSP. Changes in the GSP could therefore be implemented either in a coordinated manner by all the advanced countries having adhered to the GSP system (and possibly China, India and South Korea through their special preferential schemes for least developed countries), or only by those among them wishing to do so.

While there is virtually no room, as noted, for improving preferential access to the EU for the countries that enjoy duty-free/quota-free access under the GSP-EBA, there is some scope for improving access under the special U.S. GSP scheme for least developed countries (even for AGOA eligible countries) and substantial room for doing so in the case of countries subject to the standard GSP schemes of both the EU and the US.<sup>64</sup> An obvious option would be to include in the GSP certain manufactured products such as textiles, clothing, leather goods, and ceramics, which are labor intensive and technologically unsophisticated and therefore relevant for refugee employment, but which have until now been excluded from the U.S. standard GSP or classified as ‘sensitive products’ under the EU’s standard GSP and GSP<sup>+</sup> arrangements. The same is true for certain agricultural goods considered sensitive by the EU or the United States. The expansion of the GSP to these products could be limited to countries hosting large refugee populations and, possibly, made conditional on the actual employment of refugees in their production.

A drawback of such a reform of the GSP, however, is that it would risk eroding the value of the preferential advantages enjoyed by the least developed countries, making it harder for them to compete with the more developed GSP beneficiaries in the rich countries’ markets. Another potential criticism is that if the GSP treatment was to be improved only for countries hosting large refugee-populations, it might go against the non-discrimination requirement of the Enabling Clause. The improved preferences, it could be argued, would therefore need to be extended to other GSP beneficiaries as well. However, this argument is disputable. Indeed, just as the EU has a more generous version of the GSP (the GSP<sup>+</sup>) for countries meeting certain vulnerability and governance requirements, it should be possible for advanced countries to introduce a more generous variant of their GSP systems (or to apply, regardless of their per capita income, the same treatment they grant to the least developed countries) for countries hosting a minimum number of UNHCR-registered refugees and meeting other eligibility criteria, such as having ratified the UN’s Refugee Convention and Protocol and having an adequate refugee protection framework.<sup>65</sup>

Another, less ambitious, way to link the GSP to refugee integration would be to make the existing GSP systems conditional on the need for GSP beneficiary countries to ratify the UN’s Refugee

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<sup>64</sup> Also, two low-income countries holding large populations of refugees, namely Bangladesh and Iraq, are currently excluded from, respectively, the U.S. and the EU GSP schemes. An inclusion, perhaps conditional on their refugee integration policies, could in principle be considered here.

<sup>65</sup> The introduction of refugee considerations in the GSP might also be seen as going against the spirit of the GSP since the 1979 Enabling Clause only waived the MFN for preferences aimed at supporting the economic development of low and middle-income countries. One could argue, however, that the presence of large number of refugees tends to exacerbate the economic fragility of host countries and that, by helping to increase their economic resilience, preferences granted under the GSP on refugee grounds can contribute to their stability and economic development.

Convention (and Protocol) and to remove any remaining reservations to it.<sup>66</sup> This could build on the provisions of the EU's GSP<sup>+</sup>, which require eligible countries to ratify 27 international conventions on human and labor rights, environmental protection, and good governance but which, unfortunately, do not include the UN's Refugee Convention and related Protocol among them.<sup>67</sup> Requiring adherence and compliance with some relevant ILO conventions and guidelines related to the labour rights of refugees and migrants could also be considered. As noted above, the Commission's Communication on the Partnership Framework on Migration proposed that the next evaluation by the Commission of the GSP<sup>+</sup>, which is expected to be completed in mid-2018, consider the possibility of bringing migration considerations into the system. This provides a good opportunity to propose a modification of the GSP<sup>+</sup> along these lines.

### ***9.3 Options involving only certain groups of countries***

An option that would also not require a consensus at the WTO would be for the EU to agree with its partners under the Convention of Pan-Euro-Mediterranean Rules of Origin of 2013 on a coordinated easing of the rules of origin for exports produced under certain conditions by countries (other than the EU and EFTA countries) that have signed the Convention and host a large number of refugees. This scheme, which would build on the EU's 2016 initiative for Jordan, could focus on labour-intensive sectors and be conditional on exporting firms demonstrating, under a certification process, that they are employing a minimum share of refugees. Since all these countries have a network of bilateral preferential trade agreements, which are covered by the provisions of the GATT and the GATS on Regional Trade Agreements, this could be agreed bilaterally without requiring a WTO waiver of the MFN clause, as the EU has done for Jordan.

Finally, a simpler, more ad-hoc approach would be for a few interested donors, acting in a coordinated manner, to grant trade preferences to a refugee-hosting country or group of countries in the context of a comprehensive refugee Compact entailing other commitments as well. The UN's new CFFR could provide an appropriate framework for this type of decisions. But, again, for this to be compatible with the MFN clause, it could only be done for countries having signed a free trade agreement with the participating donors.

The different (multilateral and regional/bilateral) options examined in this section are not all mutually exclusive and some of them could be combined. However, in order to make them more effective, they should ideally be targeted at the top 20-30 refugee-hosting developing countries.

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<sup>66</sup> Some GSP beneficiaries hosting large refugee populations, such as Bangladesh, Iraq, Jordan, Lebanon, Pakistan and Sudan, have not yet acceded to the UN's Refugee Convention and Protocol, while some (e.g. Egypt) have done so but have made reservations exempting them from Articles 12(1), 20, 22(1), 23, and 24, which guarantee that refugees will be treated equal to nationals regarding access to education, health, welfare programs, and some labour laws. Jordan and Turkey, which are beneficiaries of the U.S. GSP, are special cases. While Jordan has not ratified the 1951 Convention on refugees, it signed in 1998 a Memorandum of Understanding with the UNHCR that protects refugees seeking asylum in Jordan from refoulement. Turkey is party to the Convention but with a geographical limitation to refugees coming from European countries. Turkish legislation adopted in 2014, introduced, nonetheless, a status of "conditional refugee" that can be granted to non-European asylum seekers, providing them with a number of Convention-like guarantees.

<sup>67</sup> See Annex VII of "Regulation (EU) No. 978/2012 of the European Parliament and the Council of 25 October 2012 applying a scheme of generalised tariff preferences and repealing Council Regulation (EC) No. 732/2008," OJ L 303/1, 30.10.2012 (<http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32012R0978&from=EN>).

## **10. Concluding Remarks**

This paper has tried to explore the scope for using trade preferences as an instrument to support the economic integration of refugees in countries of first asylum, motivated by the recent experiment of the EU-Jordan Compact and the new approach to refugee protection. While the experience with the easing of the rules of origin under the EU-Jordan Compact has so far been disappointing, the paper tried to explain the reasons for that, drawing also on two relevant experiences with the use of unilateral preferential arrangements that also included a relaxation of rules of origin and that also tried to achieve a combination of developmental and political goals. Those experiences, the QIZ and AGOA programmes, underline the limits and shortcoming of trade preferences but they also illustrate their potentially powerful effects. They suggest that trade preferences can indeed be used in some cases as an ingredient of a new approach to refugee crises that stresses the economic self-reliance of refugees or displaced people and their potential contribution to the economic development of countries of first asylum. Even though their long-term, transformative effects on host economies might not be as robust as some authors hoped for, they can help produce rapid export and employment responses in certain sectors that are of particular relevance for refugee employment.

Trade preferences are, however, no panacea. They can only be effective if intelligently designed, taking into account the specific conditions of beneficiary countries, including their domestic political constraints, and the skills and cultural profile of their refugee communities. And they should be part of a more general strategy aimed at promoting the labour market integration of refugees across the entire economy, including in those sectors (often non-tradable sectors) where their skills are more useful. This strategy should include, undoubtedly, financial and technical assistance incentives. In fact, it should go hand-in-hand with a fundamental shift in donors' financial assistance to refugees from a humanitarian to a developmental approach, a shift that, fortunately, is already occurring. But it should also encompass regulatory measures. In particular, it will require, in some cases, the insistence by international donors on the removal of legal impediments to the formal employment of refugees.

The paper has shown that the actual scope for using trade preferences is not large because many of the top refugee-hosting countries already enjoy a high degree of preferential access to developed countries and because improving their preferential access will inevitably erode the value of the preferences already granted to other vulnerable countries also deserving protection. Nonetheless, it was argued that there continues to be substantial scope for improving preferential access of key refugee-hosting countries in sensitive sectors that have so far been excluded from major preferential arrangements such as the GSP, the AGOA and bilateral FTAs, including by making the applicable rules of origin more flexible.

Preferential schemes granted on refugee grounds should, preferably, be implemented as part of internationally or regionally coordinated initiatives. But they can also be agreed in some cases, provided they are WTO-compatible, by a group of key donors. Ideally, this should be part of broader refugee compacts also encompassing increased financial assistance and commitments by host countries to take legal and other steps to facilitate the economic integration of refugees.

In sum, while trade preferences have their limits, if they are carefully calibrated and are part of a wider strategy they can help underpin a new approach to refugee protection based on the creation of real livelihood opportunities, economic autonomy and dignity for refugees.

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