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Laboring for peace and development: evaluating the United States-Jordan free trade agreement's effects

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LABORING FOR PEACE AND DEVELOPMENT: EVALUATING THE UNITED STATES-JORDAN FREE TRADE
AGREEMENT'S EFFECTS

A Thesis

Presented in

Partial Fulfillment of the

Requirements for the Degree of

Master of Arts

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BY

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Introduction

This thesis will examine the United States-Jordan Free Trade Agreement in the context of American foreign and trade policy in the aftermath of the Cold War. This agreement, ratified in 2001, was the first bilateral free trade agreement signed by the United States which includes labor and environmental provisions in the main text of the Agreement. The thesis will examine the role of the Agreement in the context of the 1994 peace treaty between Jordan and Israel and the broader context of the Clinton Administration's attempts to create a post-Cold War foreign policy doctrine to replace Containment. It will further examine the Agreement's place as the United States began to more intensely focus on bilateral and regional trade agreements, including the domestic political debate over NAFTA and the Clinton campaign's (and later, Administration's) decision to support that agreement and negotiate a FTA with Jordan. It will then examine the effects of the Agreement in the decade and a half following its ratification, focusing in particular on the surprising explosion of the Jordanian textile industry using a largely imported labor force.

At the end of World War II, the United States found itself in a position of being the world's dominant economic and political superpower in a world where the Great Depression and war had left a vacuum of global institutions and trade regimes. The country sought to create new institutions, socially and politically, that would secure its global position while also creating the stability necessary to prevent a second global depression or third world war. To these ends, trade policy served two heavily interlinked purposes: First, to support American industry and

employment, and consequently, to strengthen international relationships, using commerce to strengthen connections, reward close allies, and isolate others.

American trade policy from the end 1945 to 2016 can be roughly divided into two phases, both of which eventually enjoyed a large degree of bipartisan support. In the first era, from 1945 until the 1984, the country sought to create global (though frequently excluding Communist-bloc nations) agreements to standardize trade regimes and lower tariffs through the General Agreement on Tariffs and Trade (GATT) negotiations. As the GATT process slowed, the United States negotiated free trade agreements with individual nations or small regional blocs, beginning with the Israel-United States Free Trade Agreement in 1984, beginning the second phase of post-war trade policy.

This phase became broadly bipartisan when then-candidate Bill Clinton voiced official support for the newly-negotiated North American Free Trade Agreement (NAFTA) during his 1992 campaign. During the next quarter century, these free trade agreements were supported by a large bipartisan coalition in Congress, and had the support of every major presidential nominee. Negotiations frequently began under an administration from one party to be later ratified later under a president from another party. Limiting agreements to specific nations allowed them to become a more focused foreign policy tool, allowing the US to “reward” specific nations, as was the case with Israel, a key US ally, or Asia-Pacific nations which served as a bulwark against Chinese expansion, as in the case of the Trans-Pacific Partnership (TPP). Over 32 years, negotiations continued, largely unabated, through five presidential administrations and three party transitions in the White House.

This phase ended in 2016 when both major presidential candidates voiced opposition to the TPP, which promised to be the largest trade agreement ratified by the United State in decades. The election of Donald Trump makes it unlikely that the TPP will ever be revived, and as such, marks the end of an era in American trade policy of continuous bipartisan trade negotiation. The criticisms leveled against the TPP by then-candidate Trump, as well as Sen. Sanders, and later Secretary Clinton, that the agreement “sold out” American workers and corporations to lower-cost countries, with few to no protections for workers (though additional criticisms included that they do not protect high-value American intellectual property or include environmental protections), were neither new nor novel, and, in fact, had been a core part of the 1992 presidential campaign until Clinton effectively ended the debate by endorsing free trade and winning the Democratic nomination. In fact, the US-Jordan Free Trade Agreement (USJFTA), the only free agreement negotiated primarily under the Clinton Administration, sought to address concerns with these agreements head on by including labor, intellectual property, and environmental protections in the main body of the agreement.

Understanding why these criticisms resonated with so many voters across such a broad swath of the political spectrum in the 2016 presidential campaign entails understanding why the USJFTA failed to adequately address and serve as a counterpoint to these criticisms. Explaining the agreement, its specific language and protections, necessitates understanding the context of the agreement and the forces that helped shaped it. It will also place the Agreement into the broader shifts of foreign policy that occurred as the Clinton Administration sought to create a new paradigm for foreign policy after the Cold War. The chapter will then conclude by evaluating the Agreement’s success as an instrument of foreign policy.

The second chapter will examine the USJFTA in the context of American trade policy in the postwar period. The chapter will first more closely evaluate the shift in policy towards bilateral (and regional) free trade agreements, and pay particular attention to the political considerations that lead to Clinton's support for NAFTA in the 1992 Presidential election. It will then examine the beliefs, challenges and successes of the Clinton Administration in trade policy. It will argue the Agreement was created to serve as the paradigmatic example of "Enlargement," the Administration's argument that closely coupling trade and foreign policy could simultaneously preserve and expand American hegemony, expand democracy, and economic welfare abroad and at home, and evaluate it against this standard.

The third chapter will focus on the direct economic effects of the agreement. It will look at macroeconomic indicators, primarily in Jordan (it will be shown that the effects on the American economy have been predictably negligible), before and after the Agreement's ratification. The chapter will then examine the Agreement's effects on specific sectors of the Jordanian economy, including the profound and unexpected importation of a multinational workforce in Jordan, and evaluate the Agreement's affects against multiple economic theories on free trade.

The thesis will conclude by examining the rhetoric around free trade in the 2016 US Presidential election and compare these criticisms to the Agreement's aims and effects in terms of international relations (as discussed in the first chapter), trade policy (as discussed in the second) and economics (as discussed in the third).

Literature Review

This thesis will argue that the USJFTA should be evaluated as a tool of foreign policy, an example of trade policy, with a particular emphasis on the economic effects of the trade agreement. As such, the thesis draws upon international relations theory, trade theory and economics. The following section will examine the competing perspectives of Neo-Realists, Neo-Liberals, and Dependency Theorists as it relates to trade policy, with some notes on contributions from Marxian thought on the topic. Following this evaluation, the literature review will examine economic perspectives on free trade, and bilateral FTAs specifically.

Liberalism and Neo-Liberalism

There are three main branches of Liberal theory, as identified by Keohane (1986), all of which are relevant in understanding the USJFTA. Each of these three branches can trace their origins to Emmanuel Kant's *Perpetual Peace* (1795), and all essentially argue that peace between states occur because of various kinds of linkage between states (and their populations), and not because of balance of power arrangements between states. (The links were formally tied to Kant in the literature by Russett et al, 1998.) The first branch of Liberal theory that will be discussed is commercial Liberalism, which states that wars are less likely between states that have developed strong trade links. The second is democratic Liberalism, which emphasizes that republican governments are less likely to start wars, and the third is institutional Liberalism, which stresses the importance of rules, regulatory frameworks and institutions in establishing predictable relationships between countries.

Although the specifics may differ, a wide array of Liberal thinkers argues that there is a positive link between the expansion of trade and peace (Polachek, 1980; Morrow, 1999; Stein 2003; Levy, 2002; Gartzke, Li and Boehmer, 2001; Haas, 1958; Deutsch, 1978). One of the earlier modern authors to advance the notion that increased interdependence from trade would reduce the chances for conflict was Angell in his work *The Great Illusion* (1912). The publication of this work shortly before the outbreak of World War I undermined the theories he advanced –deadly wars following a period of increased trade did not fit his theory.

Similarly, a key component of Neoliberalism as advanced by Keohane and Nye (1989) (which is part of commercial liberalism) is the notion that although states are *one* actor in international relations, they are not the *only* actor (as often described by Neorealists, below) when it comes to economic policy, and that security interests are not the sole reason that states act. Instead, nations are linked in many ways: directly between governments, through government-sponsored activities such as cultural exchanges, and from non-governmental entities such as transnational corporations, and even personal connections across borders. As a result, it is not always possible to cleanly separate domestic interests and foreign policy.

In the “trade” branch of liberalism sits modern authors such as Richard Rosecrane, whose *The Rise of the Trading State* (1986) argues that nations which focus on territorial questions of sovereignty (the United States and USSR are given as two examples) do so to their detriment. Rosecrane posits in *The Rise of the Trading State* that focusing on improving mutually beneficial trade relationships is a better way of achieving prosperity than attempting to use force for accumulation of power or resources. Weede (2004) argues that trade links have a greater ability

to reduce the likelihood of war between states than democracy or other commonly posited liberal factors. Similarly, Polachek (1980) uses an expected utility model to argue that trade (more or less) unconditionally promotes peace, as “the cost of being belligerent... increases with the level of trade.” After a given amount of trade, nations simply cannot afford the trade costs of a conflict – so will find ways to keep trading.

The second branch is democratic Liberalism, closely related to democratic peace theory, which posits, broadly, that democracies are less likely to go to war, either in general (monadic peace) or against other democracies (dyadic peace). Most theorists tend to focus on dyadic peace. Muller and Wolff (2004) attempted to determine the direction of causality between democracy and peace. They found that democracies may be less likely to go to war than other, non-democratic states, but that the theory and evidence advanced for monadic peace is “neither necessary nor convincing,” finding more the evidence for dyadic peace to be more compelling.

Democratic peace theorists differ on the reasons why democracies are less likely to go to war. Russett (1993) argues that separation of power prevalent in most democracies prohibits a single leader from going to war. Thus, a decision to go to war must necessarily be deliberate, and slower than a unilateral decision (Russett, 1993; Reiter and Stam, 2002). In explaining why democracies are more willing to go to war against non-democracies, it is because democracies are more likely to mobilize against democracies because both branches realize that quick mobilization may be necessary to protect security interests (Reiter and Stam, 2002). In democracies, leaders are more accountable to the public than their autocratic counterparts because of periodic elections (Russett, 1993; Russett and Oneal, 2001; Reiter and Stam, 2002).

Doyle (1983) argues that democracies may feel justified in military action against non-democracies under the belief that such regimes threaten their way of life. Owen (1997) continues this argument by stating that a state must be perceived as liberal by a democratic state for that state to feel pacific towards it. Zakaria (1997) argues that democratic peace is misleading, and that what is really at issue is *liberal democratic constitutionalism*, arguing that several formally (and procedurally) democratic states are illiberal and may not be as prone to peace as liberal democracies. This is in contrast to Russett (1993)'s assertion that it is actual normative features of democracy that encourage nations to have peaceful relations.

Neoliberalism builds upon liberal thinkers with regards to the connection between democratic institutions and peace, but with a more thorough grounding in modern economic theory.

Perhaps the best known set of policy ideas from neoliberalism come in the form of the so-called Washington Consensus. This term, coined by John Williamson in 1989 (and discussed in his 1990 paper, "What Washington Means by Policy Reform"), comes from a series of ten policy prescriptions for crisis-wracked developing nations that were broadly endorsed by Washington-based think tanks and which had gained a widespread following at the Treasury Department and elsewhere. These included a restrained fiscal policy, moving away from subsidizing industry and towards using public funds for education and infrastructure, privatization and deregulation of industry, trade liberalization and security of private property rights. Since then, the term has broadened to include not just these policy prescriptions, but more generally towards moving to market-based approaches to solve economic problems. Although Williamson (2002) resists this broader characterization of the term, it is frequently used as shorthand for a market-based approach to international development.

G. John Ikenberry is a liberal institutionalist, whose work focuses on the manner in which international institutions bind states together. Ikenberry argues that stability ensues from creating institutions which make behavior between states more predictable, easier to interpret, and which limit the ability of a single state to deviate widely from norms built into institutional arrangements. Ikenberry (1992, 1998) argued that in the years and decades following World War II, the United States sought to “lock in” a significant, but intentionally limited, amount of control through the creation of a number of international institutions. These institutions (from NATO to the WTO) are created in a way to be favorable to the United States, but also to other participant nations. The United States agreed to a degree of restraint in its instructions, thereby limiting its power, but in exchange “locks in” a (relatively) favorable world order. Other nations join this order because it institutionalizes promises that they will not be dominated or abandoned, and that they are given a ‘voice’ in the operations of the system. Over time, these institutions become “binding,” creating more predictable patterns of world behavior, creating a more stable order over time. Brinkley (1997) links institution-building to the Clinton Administration through the policy of “Enlargement,” whereby new democracies are encouraged to adopt liberal market reforms, and new market economies are encouraged to develop a stronger, more prosperous middle class, in the hopes of fostering democracy. “Enlargement” can be viewed in some ways as an extension of the Democratic Peace Theory insofar as it promotes democracies within states and trade between states as a recipe for more pacific, and stable relations, within the inter-state system. Ikenberry treats the Western institutions that were developed in the post-WWII period – both economic and political – as examples of this trend in practice.

Weede (2004) argues that trade actually has a greater pacifying effect than democracy, although this view is disputed by Goenner (2004) and Mousseau (2005). In any event, the case of the US-Jordan Free Trade Agreement is an example of the policy of Enlargement in action. A key objective of the Clinton Administration was to tie Jordan and Israel (and Jordan and the US) together through trade, and eventually, democracy, as part of the Enlargement Doctrine. Undoubtedly, the ultimate goal was to “enlarge” past Jordan and bind other Middle Eastern nations to the West and Israel through trade, and use this as a basis for regional peace and stability.

There is dispute amongst Liberals and Neoliberals in emphasis or arguing for the primacy of one rationale over others. Nonetheless, a great number of Liberal and Neoliberal thinkers argue for a positive link between the expansion of trade and peace (Polachek, 1980, Morrow, 2003; Stein 2003; Levy, 2003; Gartzke, Li & Boehmer, 2001; Haas; 1958, Deutsch et al., 1973) Russett and Oneal (2001) argue that trade links which democracies foster make them believe they have more to lose than gain in a war. This is at once descriptive and prescriptive.

Bearce (2003) argues for a “commercial institutional peace,” where economic links provide both a reason not to go to war, a means of organization for security coordination (as trading partners may have similar security interests), and a mechanism for providing face-to-face time between leaders at commercial summits, helping to build trust between world leaders. This thinking is broadly along the lines of the Clinton “Enlargement” doctrine, providing an additional step of an additional mechanism for securing peace.

In addition, there are also a number of theorists who argue for reverse, or spontaneous, causation for the links between liberalism and peace. Reuveny and Li (2003) argue that for simultaneous causation of democracy and peace; on the other hand, wars reduce the probability of democracy or democratization, and therefore, belligerent states are both less likely to be democratic *or* become democratic. Reiter (2001) argues that the causality of peace is democracy.

There is broad agreement amongst liberal and neoliberal thinkers that democracy and peace are intertwined, even if the causal link is not well-understood or agreed upon. Neoliberals add grounding in modern economics to this belief, and many specifically endorse the construction of institutions as ways of preserving peace through the promotion of a stable world order.

Ikenberry and his belief in institutions as binding agents for peace were of particular influence to the USJFTA, as evidenced by Clinton's "Enlargement" doctrine.

Liberal institutional theory establishes, in a sense, a triad of democracy, peace and trade, including economic development, stable governance, respect for individual liberties, and a lowered probability of engaging in armed conflict. Neoliberalism, as articulated in the Washington Consensus, focuses specifically on the benefits of liberalized market economic policies as a mechanism for improving economic prosperity. In between these poles are a variety of perspectives between on the importance and causal order of economic growth from trade, democracy, and peace. After the First World War, the United States pursued a policy of encouraging democracy, in the hopes of encouraging peace. Amid uncertainty over how this triad develops, the USJFTA is an attempt to create this triad by building the trade "leg" (and only

the one leg) first. It is an experiment in neoliberalism, in a region where the US has along had an interest in establishing peace, and several years before a massively costly (and failed) experiment to establish the democracy in the region. The key premise was that economic growth (resulting from free trade) would increase standards of living, and pave the way for both political democratization and peace.

Thus, under the “trade first” version of the neoliberal paradigm, we would expect, over time, the growth and development of the other two “legs” of the table – movements towards democratization, and peace. Under Ikenberry’s theory of institutionalization, we would also expect a greater connection between Jordan and other states through membership and growth in a greater number of international institutions and institutional frameworks.

Therefore, if this theory holds true then in the time since the implementation of the USJFTA, Jordan would be expected to join other regional and global organizations, and those institutions having greater ties to increasing parts of Jordanian society and government. We would expect domestic Jordanian institutions, from civil society to the court system, to develop and increasingly resemble those in the industrialized world. And we would expect more peace and stability, at least in regard to Jordan’s relations with Israel. Finally, we would expect a growing Jordanian middle class to grow institutions resembling a civil society. Together, more developed courts and a growing civil society are considered important precursors (or harbingers) of democracy. Evaluating the extent to which any or all of these predictions have developed in the time since the implementation of USJFTA is a key task for this thesis.

Realism

Political realism traces its roots to Niccolo Machivelli and Thomas Hobbes, and looks at the world through power relationships between states. According to Hobbes, the natural state of humanity is “the war of all against all,” (*The Leviathan*, 1651), leading to the later tenant of realist theory that the international system is anarchic in nature (Waltz 1979). Machievelli (1532) argued for a pragmatic, rather than ethical or moral, approach to governance and international relations. This leads to the belief that success is the ultimate test of policy, measured by the preservation and enhancement of the nation-state (ibid). These ideas, along with those of other theorists, leading to classical realism’s belief that the “drive for power and the will to dominate [that are] held to be fundamental aspects of human nature.”

Stemming from these beliefs, Realist theory examines the relationships between nations in terms of recurring struggles of power manifested by reoccurring conflicts, rivalries and wars (Jackson and Sorenson, 2007). Realist theory holds that states seek to maximize their power (Frankel 1997), largely through military ends. Realists do differ regarding their belief of the ultimate goal of states with regards to their power, as illustrated by a disagreement from two of the most important realists of the mid-20th century: Hans Morgenthau (1973) who argued that states have a Nietzsche-like will to power, whereas Kenneth Waltz (1979) argued that states merely seek to maximize their own security.

Realists tend, however, to share five key assumptions about the functioning of the world system. First, the international system is anarchic (Waltz, 1979); no "government over governments" exists (Claude, 1979). The second is that states inherently possess offensive military capacity (Mearsheimer, 1995). The third, stemming from this belief, is that no state can be entirely

guaranteed to be benign (ibid); the fourth is that states seek to preserve their own continued survival (ibid) and the fifth is that states are inherently rational and think strategically at achieving their ends (ibid).

Most realists also contend that states seek to maximize their power (ibid, p. 12), an assumption that is central to "offensive realism." However, "defensive realists" argue that the most effective way of achieving the fourth assumption of realism, self-preservation, is through preserving the existing balance of power. Because states are assumed to be rational, defensive realists argue states work to achieve this end instead of maximizing their power (Grieco 1988; Snyder 1991).

Because the international system is anarchic, realists tend to be dismissive of the binding power of institutions in creating or stabilizing peace. In John J. Mearsheimer's "The False Promise of International Institutions," (1995) Mearsheimer purports that, "institutions cannot get states to stop behaving as short-term power maximizers." Realists, Mearsheimer argues, "maintain that institutions are basically a reflection of the distribution of power in the world." As such, they reflect an existing balance of power, instead of helping alter it.

Because states operate in an anarchic realm, have offensive capability, and cannot be assumed to be benign, states may enter into alliances, but these are only temporary and borne out of mutual security concerns, for example, where the fear of a common enemy overcomes the potential threat of war with an alliance partner (Walt, 1987). However, such alliances are necessarily temporary – today's enemy is tomorrow's friend against today's ally. Realists point to the Soviet Union's allegiance with Nazi Germany at the outbreak of World War II as a

paradigmatic example (see Schweller, 1994). Thus cooperation happens not out of an inherent desire for peace, but rather to achieve strategic ends.

In general, realists are dismissive of the power of institutions such as trade agreements to alter the balance of power, believing instead that institutions are “arenas for acting out power relationships” (Evans and Wilson, 1992). In other words, they are created to reflect and provide a reflection of the power distribution at a certain point of time.

Realism primarily focuses on states competing militarily, and relatively little to say on primarily economic trade agreements – noting, for example, that nation-states’ ability to wage war depends to a large extent on economic strength (Mearsheimer 1995). Where Liberals see trade as mutually beneficial, Realists see trade as, if not quite a zero sum game, as a game that always has winners and losers, and nations should only pursue trade deals if they believe they stand more to gain than their trading partner.

Where classical Realism flows from Machiavelli’s beliefs on human nature, Neorealism, as first articulated by Kenneth Waltz (1979) instead proposes that it is the structure of the international system that determines behavior in international relations. Neorealism posits that all states have similar needs (self-preservation, greater relative power), but not means of achieving them. The anarchic nature of the international system makes it difficult to predict other states’ actions, particularly over the long term. This causes states to be concerned with relative power gains and losses, and they seek to maximize relative gains at all times.

Therefore, as it relates to the effects of the USJFTA, it could be said that realism and neorealism offer no prospective predictions: Free trade agreements reflect power arrangements at a certain

point in time, but do not alter them (or at least, not by much). More to the point, free trade agreements are meant to institutionalize one's advantage from a realist view. It could be argued, moreover, that over time, the power relationships between nation states change, and pacts and alliances (including trade pacts) would be renegotiated to reflect these shifts. However, that prediction is exceedingly general, and setting up defensible claims would require several intermediate claims; for example, immediately following the invasion of Iraq in 2003, the US's power in the region increased, putting the US "ahead" vis-à-vis the 1990s-era pact's negotiation; or that following the prolonged insurgency, the US was less likely to engage in any significant new Middle Eastern intervention, or perhaps that Jordan became more or less important to US power calculations during the prolonged Syrian civil war. Such claims could certainly be made, but renegotiating the agreement would be a prolonged process and would require legislative approval in both the US and Jordan, and, as the examples above illustrate, relative power is fluid and great shifts can be claimed in a short period of time.

Dependency Theory and Other Critics

One of the key tenants of Liberal theory is that nations seek mutually beneficial relationships; while Realists argue that nations seek to maximize their power over other states. Dependency theorists, by contrast, argue that nations seek to secure favorable positions with respect to other peoples, nations, or regions, and that this has occurred in the international capitalist system by making peripheral states and societies dependent upon the core states of the capitalist West for their economic, social or political (or all three) functions. This occurs because the nations in the core develop economic structures for their own benefit and which ensure the nations at the periphery require trade links with their "partner" at the core to meet their economic needs. One

early example of this theory is by Hirschman (1945), in *National Power and the Structure of Foreign Trade* argued that mutually beneficial trade could, in time, produce cause nations to cease producing goods they required, and thereby become dependent upon their trading partner over time. Subsequently, Prebisch (1950), in his report to the United Nations, *The Economic Development of Latin America and Its Principle Problems*, found that Latin American nations were a periphery whose resources (and the benefits of trade) flowed to the more dominant countries of the center. As technology improves, the industrialized world accrued benefits from technology, but the periphery was unable to accrue such benefits. This, over time, leads to declining terms of trade for peripheral nations with the core. Singer (1950) came to similar conclusions but used more empirical methods. These theories together became known as the Singer-Prebisch thesis. This theory was further refined by Emmanuel (1972) who placed the differing terms of sale for goods on wage levels in advanced economies.

Dependency theory further described how trade relations, when they become asymmetric, could become detrimental to the weaker trading partner, and in the long run be detrimental to peace. In a somewhat ironic twist, dependency theory and neorealists are both skeptical that greater trade links increase peace. Dependency theorists differ as to the degree to which the dependent nations are a necessary condition of a global capitalist system.

One highly influential argument which refutes the argument trade-generates-peace is World Systems theory as advanced by Immanuel Wallerstein (1974, and further advanced and somewhat altered, 1980, 1989, 2011), which argues that capitalism was generated as a byproduct of the development of long-distance trading networks beginning in 15th century

Europe. These networks eventually encompassed greater and greater parts of the world into their “system,” which both necessitated and helped generate colonial systems where some nations were intentionally brought into the system, but forced to stay at its periphery, feeding resources to the core while being forced to import higher-end goods from the center in necessarily dependent relationships. A similar argument was advanced by Andre Gunder Frank (1978), who argued that the structure of the system necessitates that benefits accrue at the core, not the periphery. Wallerstein and Frank’s theories can be seen as a response and refutation to Rostow (1960)’s “modernization” theory which posits that each nation was somewhere on a ladder of development, and with proper structure and encouragement, all nations could advance to the apex of this ladder.

Nations at the periphery are coerced either through military force leading to colonialism, or later, through more subtle forms of power, to produce primary products for the core at low prices, and kept out of higher-end manufacturing (even through the destruction of previously established local industries, such as the export of cotton textiles from India to Britain in the 18th century). The periphery-core relationship ensures sources of cheap, lower end goods supported by abundant cheap labor for the core. It also ensures that “high end” products (textiles in the 18th century or advanced telecommunication services today) remain concentrated in the core.

The periphery-core relationship effectively ‘kicks down’ the ladder so that nations cannot ascend it, except, as Wallerstein notes, by integrating themselves to the system and slowly working their way towards the core, a spot that few nations can occupy at a time. More recently, however, Ocampo and Parra (2003) have demonstrated that even for “middle income” nations such as

Mexico, Thailand and China, the terms of trade have also fallen. Under dependency theory, this demonstrates that the benefits of trade accrue to the core at the expense of the periphery.

Recent works in dependency theory have focused largely been responses to theories advanced by neoliberals, as neoliberal theory has become dominant in both popular discourse and political decision making (as evidenced by WTO and World Bank policies and the drive towards bilateral FTAs by the United States and others). Dunn (2009) argues that neoliberals often create a “straw man” argument pitting free trade against autarchy to advocate for a specific form of free trade, namely, the free movement of capital and goods but not people.

There are other important criticisms from authors who work in other frameworks. Stiglitz, a mainstream economist (2002) argues that market fundamentalism, placed above human needs, creates unnecessary harm in human lives. He uses the term “market fundamentalism” to refer to in rapid, and harmful reductions in trade barriers. He also sounds another criticism, that free trade, as part of globalization, has meant liberalized trade in investment and goods, but not in people or jobs – protections for migration remain firmly in place. Rodrik (1997) argues that import substitution, that is, specific industrial protections, can help make a nation more competitive for trade in the long run. In his work *Kicking Away the Ladder*, Ha-Joon Chang similarly argues that advanced nations used protections (removed in free trade agreements) were employed by all successfully industrialized nations, and removed only after industrialization. Free trade agreements “kick away the ladder,” and remove the ability of more states from employing a similar strategy. Furthermore, many critics argue that free trade has so far only been extended to specific industries –and notably, not agriculture. Birdstall (2006) and

an Oxfam report (Watkins and Fowler, 2002) both argue for the effective implementation of free trade across all industries, including agriculture. On this point, they actually agree with mainstream economists such as Bhagwati (2004), however, mainstream economics, as articulated below, hold as a rule that a reduction of barriers in any form improves the welfare of both trading partners on net (though this means, overall, that “winners” in trade can compensate “losers” within one nation). Synthesizing many of the views of critics, Harvey (2005) in his work *A Brief History of Neoliberalism* argues that a global elite class of capitalists have systematically lowered barriers for capital to benefit their class, while lowering worker protections and environmental standards as part of the neoliberal project.

Relating to American power, Wallerstein argues (2004a) that the United States has been in decline since the 1970s, and that globalization (as seen in its post-Second World War form, with the United States largely at the helm) has largely ended because it was based upon American dominance in significant parts of the international arena. As such, the time for “soft multilateralism,” such as trade pacts, is at an end, though his work does little to state what will happen with existing pacts. However, *The Modern World System* (1973) seems to suggest that hegemons enjoy a long “halo” effect even after falling; he notes the Dutch and English both enjoyed periods of significant domestic prosperity decades (and possibly even centuries) after the end of their hegemony. This may suggest a point of agreement with Neoliberals, who argue for the “stickiness” of institutions.

As it relates to the USJFTA, dependency theorists would argue that Jordan would be forced to maintain a ‘peripheral’ relationship to the United States, and export only products that require

large amounts of unskilled labor and relatively low amounts of capital. They would expect an enrichment of the elites who run factories or actively engage with the core-nation trading partner, but the majority of working-class individuals would remain in labor-intensive, low-paying jobs and receive few of the benefits of the new trading relationship. More over, dependency theorists (or its more contemporary variation) would predict that there would be no widespread movement towards the production of higher-capital goods (which tend to be more profitable), and instead, these goods would continue to be imported from core nations, with an expectation that this would largely be from the United States due to the trade advantages of the FTA. Because the labor force would remain in low-paying, labor-intensive jobs, we would not expect any widespread movement towards democratization including the development of a more rigorous judicial system. The gains expected by the Enlargement policy, in short, would never materialize.

Free Trade: Economic Perspectives

Understanding the appeal of free trade agreements from an economic standpoint will help to shed light on the debates discussed above, and to better understanding the rationale of the USJFTA. This is due, in part, because the arguments of economists are used as part of neoliberal (political) discourse to justify economic policies even over objections of labor or social welfare groups (Harvey 2005). Economists have been largely supportive of free trade, and have based their arguments on both theoretical and empirical grounds. Understanding these theoretical perspectives is important in evaluating the USJFTA for multiple reasons. First, understanding the theoretical support for, and criticisms of, free trade will help evaluate the successes and failures

of the agreement. Second, understanding the theoretical perspectives that support and are critical of free trade helps frame both popular perceptions and political support for free trade. Economists have been overwhelming in their support of free trade policies. Alston, Kearn and Vaughan (1992) in a sample of 1,350 economists found that more than 90% believed that tariffs and import quotas – protections which are eliminated in free trade – usually reduce general economic welfare. In their work investigating the political origins of protectionism, Mayda and Rodrick (2005) conclude that “the consensus among mainstream economists on the desirability of free trade remains almost universal.” This support stems from Ricardo’s *Principles of Political Economy and Taxation* (1817), using an example showing that even if one nation was less efficient at producing all goods, it could still benefit from trade using comparative advantage. Despite nearly two centuries of economic research since then, this support has endured because as Irwin (1996) summarizes in his investigation of the history of free trade, “The case for free trade has endured because the fundamental proposition that substantial benefits arise from the free exchange of goods between countries has not been overshadowed by the limited scope of various qualifications and exceptions.”

Since Ricardo, a number of alternative explanations of comparative advantage have been created, the best-known of which is the Heckscher-Ohlin model. This model, first developed by Ohlin in 1933 and published in the work *Interregional and International Trade* (1967), develops from the idea that nations differ in terms of inputs (labor, resources, capital), and that goods are produced based upon different proportions of these resources. This model suggests that one of the benefits of free trade is that, over time, prices of similar goods in two countries will tend to

equalize, as should costs of productive resources. This theory was refined in 1941 by the Stolper-Samuelson theory (Stolper and Samuelson, 1941) which suggests that the price of the scarce resource in a nation should fall, and the plentiful resource should rise. Paul Samuelson is considered one of the first and foremost neoclassical economists. This theory predicts falling wages as a labor-scarce country trades with a country with more plentiful access to labor, but that overall, net economic growth will increase as a result of trade, and thus, greater prosperity will result. This theory has largely remained at the center of mainstream economic thought, although recent work has increased the level of detail in the model.

While economists generally support free trade agreements, there remains real debate about the extent to which labor and environmental protections can and should be included in free trade agreements directly. Brown (2000) discusses many of the challenges of including labor and environmental standards in the WTO. Bhagwati (1993) has noted that environmental and labor standards are often value-laden, however, and there is evidence that those in wealthier countries may value a cleaner environment more than those in the developing world. Bhagwati and Hudec (1996) have a long and wide-ranging series of papers in two volumes about whether harmonization of labor and environmental policies (and with them, the value-norms that are associated with these policies) must be harmonized prior to free trade being implemented. Although their authors reach no specific conclusions, the debate is weighty – and lengthy. Richardson (1995) argues that the inclusion of a targeted set of non-tariff standards around worker protection and technology issues might be necessary for expanded trade agreement passage.

A review of the literature therefore produces several distinct views about the role of free trade agreements in international relations. While Liberalism and Neoliberalism posit that states are concerned with absolute gains, Realism and Neorealism are concerned with relative gains and losses between other state actors. Liberals and Neoliberals therefore view free trade agreements, which produce absolute gains from both parties, as a stabilizing force. Some Liberal theorists examine the links between trade, peace and democracy. Liberal institutionalists believe that the creation of international institutions, including trade pacts, make state actions more predictable and therefore increase international peace and stability. Although they do not agree on the direction of causality, there is evidence that the three are connected. Under this viewpoint, the USJFTA would raise living standards within Jordan, and foster greater ties in the region and with the United States. These ties reduce the chance of conflict. At the same time, the growth of the Jordanian economy would create a middle class that would demand a greater role in governance over time, which would in turn lead to democratization, which further supports peace.

Because Realism and Neorealism are concerned with relative gains, they believe that trade pacts, like all other alliances, are temporary. They believe that such pacts should be viewed as attempts by one nation to “lock in” the best position possible for a period of time, maximizing their relative position with the other nation and with others. Therefore, changes in the relative power between Jordan, Israel and the United States would change the behaviors of these state actors. If Jordan found its relative power growing compared to those nations, they might seek to renegotiate the peace treaty or FTA under more favorable terms; while if the United States grew in power, it would seek to further constrain Jordan’s relative power in the Middle East,

particularly as it relates to Israel, which has continues to be viewed as an important US ally in the region.

The review of the literature also produces two distinct views on the economics of free trade agreements. Mainstream economists argue that trade produces real benefits due to the comparative advantages each nation enjoys. Even Free Trade Agreements with the qualifications and exceptions of FTAs like the USJFTA, most economists believe that the treaties create net benefits. Under this belief, we would see increased trade between Jordan and the United States, leading to higher relative welfare in both nations, all other things being equal. Dependency theorists, on the other hand, believe in a polar world with nations at the core and periphery. Free Trade Agreements are one way that nations at the core attempt to lock nations to their position at the periphery. Under this belief, FTAs lock peripheral nations (Jordan, in this case) in to producing goods with fewer capital inputs, exporting lower-priced products to the core, while they remain dependent upon core nations to import higher-capital goods that tend to be more profitable.

The Enlargement doctrine created by the Clinton Administration was consciously based upon liberal views in international relations and mainstream economic views. The USJFTA could therefore be expected to produce greater ties between the United States, Jordan, and Israel, which would make conflict between them less likely. Over time, the USJFTA would create greater living standards, raising the prospect of further peace and democratization. Both Neorealists and Dependency theorists would be skeptical of the intention of the Agreement and would believe that these outcomes would be unlikely to materialize. The following sections of

this thesis will evaluate the USJFTA from the perspectives of foreign policy, trade policy, and economic aims and effects to determine which theories most accurately predicted the outcomes of the USJFTA.

Chapter 1: The USJFTA As a Foreign Policy Tool

Introduction

While Free Trade Agreements are undeniably instruments of economic policy, they are also instruments of foreign policy. It is no coincidence that the first bilateral free trade agreement that the United States signed was with Israel, a key US ally in the Middle East, but not one of the United States' larger trading partners (Ruebner and Sharp, 2001). This chapter will examine the United States Jordan Free Trade Agreement as an instrument of foreign policy. The chapter will first discuss the shifts in Jordanian-American relations that occurred in the 1990s, as relations warmed after Jordan signed a peace treaty with Israel. This necessitates understanding American-Israeli and Israeli-Jordanian relations. The chapter will then put the USJFTA in the context of broader American foreign policy aims in the Middle East. The chapter will then place the Agreement in terms of global American foreign policy aims. In 1992, President Clinton became the first candidate elected after the collapse of the Soviet Union, and as such, his administration needed to create an overarching goal for American foreign policy to replace "containment." The chapter will demonstrate that the USJFTA is *the* paradigmatic example of the Clinton Administration's policy of "Enlargement." The chapter will then evaluate the success of the USJFTA as a foreign policy tool.

Historical Relations: The United States, Jordan and Israel

Early Jordan-US Relations

Jordanian-American relations are best viewed through two lenses. The first is the regional lens of American policy, goals and aims in the Middle East region. The second is Jordan's role in the United States' overarching global foreign policy aim, especially during the Cold War, when the country was viewed as a bulwark against Soviet expansion into the Arab world. Regionally, this chapter will argue that a key focus of the United States policy in the Middle East is the security of its allies, primarily that of Israel.

Jordan had long been considered a friend and ally of the United States against Soviet expansion. King Abdullah I gave a fervent speech against the growth of communism at the 1960 UN General Assembly meeting where Khrushchev famously banged a shoe (bin Talal, 1962, pp. 200-207 for text of King Hussein's speech). The United States and Jordan had never signed a formal treaty of alliance or mutual protection (Bolle, 2001), but their interests were very much aligned. Even in the decade prior, the United States had grown to be considered Jordan's primary Western backer. Although the amount of support Jordan received was not particularly large, it was enough to keep Jordan's government loyal to the United States (Braizat, 1995).

American views towards Jordan and its relationship with Israel have been more nuanced, and often strained. As described below, Jordan's relationship with Israel was uniquely strained given Jordan's location, history and ethnic makeup. Jordan, like many other Arab states, was created as an emirate with an Emir hand-selected by Europeans and later, a self-governing King.

Following the declaration of Israeli independence, Jordan received an influx of Palestinian refugees and fought with other Arab states against the nascent Israel in 1948. As an Arab state,

Jordan was under intense pressure to support Palestinian territorial claims and the pursuant struggle against Israel. It also served, due to its population and position neighboring Israel, as a launching point for attacks into Israel by Palestinian groups. Its location also made it vulnerable to Israeli attacks, and Israeli retaliations to Palestinian attacks. Together, these twin challenges to Jordanian sovereignty – from Palestinian organizations operating within Jordanian territory, and from external Israeli attacks – tempered, and ultimately determined Jordanian-Israeli relations, along a halting, but ultimately successful, quest for peace between the two nations.

The Halting Path to Peace Between Israel and Jordan

For a half century, the United States' Middle Eastern policy has hinged upon its relationship with Israel, and as a nation sharing a border with Israel, Jordanian-American relations cannot be understood without understanding the importance of Israeli-American relations. Since it became a state, Israel has been the largest recipient of US foreign aid and bilateral military aid (Sharp, 2010). Bar-Siman-Tov (1998) and Little (1993) discuss American-Israeli relations as a "special relationship," though they differ in exactly how the relationship came about. Both of their "special relationship" theories argue, essentially, that the United States shares features in common with Israel that make the nation a key US partner in the region. This, in turn, is used to justify treating Israel exceptionally in the region. Both generally agree that the US thought of a democratic Israel as a stabilizing force against Arab nationalism, which presented a threat to American economic interests in the region and may have opened the region as a new front in the Cold War. Western democracies (led by the US) vied for regional influence with the USSR by offering economic and military aid to various nations in the region. Israel's "special relationship" has been documented alternatively as far back the Kennedy Administration (Bar-Siman-Tov

1998). Reich (1999) argues that the 1967 War caused the United States to view Israel as the most significant counterweight to Soviet-supported leftist Arab nationalism.

Part of the reason for this “special relationship” is also the effectiveness of the “Israel lobby” in American politics. Mearsheimer and Walt (2007) argue that the United States’ detail the extensive support – financial, diplomatic, material (including military) and public – the country gives Israel and argue that such levels of support go beyond what could be expected on strategic or moral grounds. Such support is based instead on a small group of active donors within the United States. Part of the reason that this lobby has been successful has been the advocacy by the Christian right in the United States to “stand by” Israel (Drinan, 1977), leaving the pro-Israel lobby with significant resources from a variety of sources, while the Arab American community remains comparatively weak in American politics. This means that a key goal for American foreign policy in the Middle East is ensuring the peace and stability of Israel.

Jordan had long claimed territory which Israel captured in the 1967 war (The Hashemite Kingdom of Jordan 1999), and also had ongoing disputes on water rights as well as Jordan's recognition of Palestinian territories (US Department of State, 1994). Given these constraints and the importance of Israel not just as a recognized American ally but also as a key source of lobbying in the United States, closer coordination between the United States and Jordan was unthinkable given an ongoing state of conflict across the Jordan River.

Israeli-Jordanian relations slowly, and haltingly, grew closer (if not exactly warmer) over the course of several decades prior to their official peace treaty and were due to a recognition of similar interests as much as an abstract desire for peace. Back-channel doors had been open

between cabinet-level ministers since at least the 1960s (Shemesh 2010). Although these talks were tentative and both sides carried a degree of suspicion, and the two nations had major differences in their commitment to achieving peace in this time period (ibid), both nations developed “working relationships” before a formal relationship as they recognized they shared a number of security concerns.

In part, progress towards peace is due to the fact that unlike many of the more belligerent leaders in the region at the time, then-King Hussein seemed to have an actual dedication to peace, despite the need to build domestic and (Arab) regional political support through opposing Israel and supporting the case for Palestinian claims. The need for domestic and regional political considerations limited Hussein’s freedom of action in ways that the Israelis both did and did not fully appreciate (ibid). Despite these challenges, covert talks continued, largely due to a growing awareness in the late 1960s that both the Jordanian government and the state of Israel faced shared security challenges from armed Palestinian organizations operating in their territories.

Israel, Jordan and Palestinians: A Complex Relationship

Following the declaration of Israeli statehood, Jordan had taken in hundreds of thousands of Palestinian refugees and annexed the West Bank and its hundreds of thousands of Palestinian residents (Bolle, Prados and Sharp, 2007). Taken together, these Palestinian populations formed a majority of the population of Jordan. Hence, the government feared the possible effects of an independent (Palestinian) West Bank on the ability of Jordan to survive as a state. Following the 1967 Six Day war, Israel took control of the West Bank, causing a further exodus of Palestinian refugees into Jordan. These refugees further taxed Jordanian police and military forces charged with protecting and safeguarding the refugee camps, with Palestinian Liberation Organization

(PLO) members setting up quasi-governmental institutions, including uniformed officers carrying weapons throughout some camps, security checkpoints, and mechanisms to collect various forms of taxes (Shemesh, 2010).

Attempts to negotiate a settlement between the Hashemite government of Jordan and the PLO failed. It did not help that the PLO splintered into various factions, with different groups receiving various forms of aid and encouragement from a number of Arab states. Having a coordinated policy (let alone making peace) was problematic at best. The result was a series of clashes between Jordanian security forces and PLO factions. PLO militias simultaneously used bases within Jordan as launching points for attacks into Israel (Hertsog and Gazit, 2005). The Hashemite Jordanian government, therefore, faced challenges to its rule internally, from the “state within a state” developing in Palestinian areas (which together, formed a majority of the population of the nation). There was also the looming threat of invasion from Israel, which sought to end incursions into its territory originating from within Jordanian borders (ibid). The conflict was further fueled by United Nations Resolution 242, which called for the West Bank to come under Jordanian authority as part of an eventual peace plan, which was unacceptable to a swath of Palestinian organizations (ibid). As a result, these organizations stepped up their attacks on the Jordanian government and the government attempted bolder moves against the armed Palestinian groups within its borders.

The situation reached a climax in 1970, when the Jordanian government took a number of contradictory actions, both reacting to events from Palestinian groups and creating new problems. The government first passed a series of laws that sought to severely curtail the ability

of Palestinian groups to operate within Jordanian territory. The government then removed an openly anti-Palestinian minister and issued a series of statements in support of Palestinian fighters opposing Israel. Unmoved by the King's statement in support of Palestinians, the PLO began setting up a number of checkpoints and visa controls within the Palestinian territory, and one of the largest PLO subgroups dramatically hijacked three airliners, diverted them to Jordan, and destroyed them after removing hostages (Snow and Philips, 1971). This, along with contemporaneous attempts to assassinate the King of Jordan, forced Jordan to declare martial law. The goal of these actions was to bring the autonomous Palestinian regions under full Jordanian control. Syria intervened in support of the Palestinian fighters, prompting a state of near-panic from King Hussein (Shemesh, 2010). At this time, the government pleaded for support from Britain, the US and, intriguingly, Israel. Israel responded with surveillance flights of Syrian forces, which, along with other factors, prompted a swift Syrian retreat, leading to a rout of Palestinian forces in Jordan and allowing for the consolidation of control of Jordan under Hashemite rule (ibid).

Although Jordan did not receive as much Israeli support as it had hoped for, what it had received was sufficient, and the events of what became known as Black September demonstrated that both Israel and Jordan had similar interests in opposing PLO expansion. More broadly, both states benefitted greatly from support and collaboration from Western powers (Hertsog and Gazit, 2005). Both nations realized that, whatever their differences, neither wanted to see the PLO better armed, trained or equipped to fight. Although Palestinian statehood was the PLO's stated goal, they seemed more than willing to take control of Jordan and eliminate the current Hashemite government as a means to this end. This made Jordan feel, like Israel, that the PLO

threatened the country's security. This recognition led Jordan to begin its covert peace talks with Israel in the late 1980s. Although these negotiations failed to produce a treaty, they did result in Jordan abandoning its claims to the West Bank in 1989.

The normalization of relations between Jordan and Israel came to fruition in the aftermath of the Oslo peace process. In 1994, President Clinton, King Hussein and Prime Minister Yitzak Rabin signed the Washington Declaration, which created a formal and public framework for an Israeli-Jordanian peace treaty. By October, a formal agreement was signed, representing an early coup for Clinton's foreign policy in the Middle East. The Clinton Administration provided a major incentive designed to move the Jordanians to sign a peace when it promised to forgive Jordanian debts to the United States after a treaty was signed.

Creating Jordan's Peace Dividend

In addition to forgiving Jordanian debt, the Clinton Administration sought to create a "peace dividend" for Jordan, just as it did after Egypt after that country and Israel normalized ties in 1979 (Sharp, 2005). In the years following the normalization of relations with Israel, Egypt became a major beneficiary of American aid; in fact, it became the second largest non-NATO recipient of American military aid after Israel (US Department of State, 2014). A decade after achieving peace, Egypt was designated as a "major non-NATO ally," (MNNA) a distinction it shared with Israel, allowing it special access to both American military technology as well as financing to procure American weaponry (Jones, 1998). It also became a major recipient of American aid for economic development. The Clinton Administration felt that a similarly large dividend was necessary for Jordan (Prados, 2003). The goal was twofold. First, the dividend needed to solidify the newfound peace, and second, it needed to provide Jordan with tangible

benefits to smooth over any negative sentiments about the peace treaty with the Jordanian population. Finally, a goal was to provide a visible example of the benefits of normalizing relations with Israel to other countries in the region, to encourage them to follow suit.

The Clinton Administration was left to decide what forms this peace dividend would take. The first "dividend" was the elimination of Jordan's \$700 million in official debt to the United States (Prados, 2003, the report notes that the actual cost to US taxpayers was \$400 million due to accounting methods). Following that, Jordan became a larger recipient of American economic aid. Within a year of signing the peace treaty, Jordan's annual economic support funds appropriation was also increased by over 40% (Jones, 1998). The Administration also sought to provide Jordan with military aid. Military aid visibly signals that the United States believes that a country is a stable ally. In 1995, Jordan was granted \$220 million in "no-cost, low-cost" financing to purchase a squadron of F-16 fighter jets (a fighter type which it should be noted that Israel also flies); approving this request initially stalled in Congress and was only granted with explicit lobbying from Israel. One headline in a defense-industry publication, in a twist of unintentional ironic humor, noted that the "Fighters Would Serve as Symbol of Peace" (Faraj and Finnegan, 1995).

A year later, Jordan was granted the same MNNA designation as Egypt (Clinton, 1996), which may partly have been to reinforce to the Jordanians that they now had parity with the other Arab neighbor which had signed a peace treaty with Israel. This designation is reserved for nations which have a "unique and strategic US interest," (Jones, 1998), use a wide array of US military technology which it would be in American interest to keep up-to-date, or which have a

significant research and development base which could further American military technology (ibid). In announcing the designation, a State Department spokesman explicitly noted the Israeli-Jordanian peace treaty as a reason behind the move, and discusses the need to "support" the Jordanian king "as he advances the cause of peace" (Davies, 1996).

Out of all nations which have been designated as MNNA, it is telling that only Jordan and Egypt have not created a joint R&D program. According to a memo obtained by Jones (1998), administration officials knew that the status would bring "few substantial benefits to Jordan" which it did not already possess (Jordan already had access, as a matter of policy, to US munitions and joint training with the US military which the MNNA status provides), but it would give Jordan a "privileged status." These first rewards for Jordan were highly similar to the treatment that Egypt had already received since coming to peaceful terms with Israel. Even with the erasure of Jordanian debt, increases in aid amounts, sale of fighter jets and MNNA status, there had been "an absence of significant economic benefits," (ibid) which were seen as important to provide to the Jordanian government in light of an "increasingly restive populace," whose support of the peace treaty with Israel, and hardened stance to Iraq, was rocky at best.

In addition to visibly signaling Jordan's newfound status as a US ally from a security perspective, there was therefore also an identified need to provide real economic benefits to Jordan that could translate into higher living standards for the population. There are hints of the Clinton Administration's thinking on how these benefits might be created in the Israeli-Jordanian peace treaty, which stipulated that a free trade zone would be created by the two nations, in the form of Qualifying Industrial Zones (QIZ). These QIZ were designed to be a sort of "pass through" for

goods destined for the United States'. The goods produced in the zones were to be treated as if they were made in Israel and thereby enter the United States without higher tariffs (Bolle, Prados and Sharp, 2006). QIZ were authorized as an amendment to the enabling legislation for the US-Israel Free Trade Agreement at the request of the Clinton Administration.

The largest share for Jordan's "peace dividend" would then be primarily economic. Unlike Egypt, where aid promises frequently came in the form of specific projects (such as the Aswan Dam, which the United States had plans to fund until American officials viewed Nasser, then President of Egypt, as favoring the Soviet Union (Kyle, 1991)), Jordan would instead receive preferential trade treatment. The peace treaty, like the later Free Trade Agreement the nation would sign with the United States, would seek to bind the economic future of Jordan with that of Israel, promoting greater bilateral ties as a means of expanding trade, with the United States seen as an obvious trading partner.

Why these ties took the form they did lies partly in the Clinton Administration's response to the foreign policy challenges and opportunities which were created as a result of the end of the Cold War, and its liberal vision of economic and democratic "Enlargement." It was also due, in part, to the political realities of a Republican Congress that was determined to limit new spending outlays. Nonetheless, the same thinking that informed economic emphasis of the Jordan-Israeli peace treaty would later shape the United States-Jordan Free Trade Agreement. Understanding the unique foreign policy situation the Clinton Administration faced, and the path it would chart to navigate the post-Cold War world, is necessary in explaining both why the United States

would choose to negotiate a bilateral free trade agreement with Jordan, and why the agreement would take on some of its unique characteristics and provisions.

The Clinton Administration Policy of Enlargement

New Direction After the Fall of the Soviet Union

The Clinton Administration entered office at a unique time in American history. After the Soviet Union fell, the United States found itself literally unparalleled in most definitions of power and strength: It was the world's largest economy, had greater military spending than the next six highest spenders combined (four of whom were American allies), and had significant advantages in high technology, and research and development. During the Cold War, whatever advantages the United States may have enjoyed were checked, at least in part, by the Soviet Union. The Cold War gave American foreign policy a singular, overarching objective, one yardstick by which success could largely be measured: Beat the Russians. Foreign wars in regions with no obvious geopolitical significance to the United States (like Vietnam) were justified as worthwhile because of the need to check the expansion of Communism. A large military presence in Western Europe could be justified to check a hypothetical Soviet invasion. Popular leaders in Central America could be overthrown if they were perceived as being too close to communism or the USSR. Even rockets to the moon could be justified as a reasonable expense if only to prove American competence in technologies. After the Soviet Union fell, however, the United States suddenly lacked a single overarching foreign policy goal. Would there still be a large American military presence in Europe? How would America treat despots and revolutionaries now that communism had, in effect, been not just checked but checkmated? As these questions were being asked, the United States was in a singular position of strength.

Despite the global significance of these questions (both to the United States and other nations around the globe), how the United States would respond to these questions was left open for an extended period of time. During the 1992 election cycle, then-candidate Clinton's campaign strategist James Carville famously told staffers that the campaign message was "it's the economy, stupid" (Kelly, 1992). Given the election results, it is telling that President George HW Bush's re-election hopes had been largely pinned on foreign policy and his 90% approval rating following immediately following the Gulf War (Agiesta, 2007). Clinton's victory, then, highlighted the primary importance of the economy in the election, and conversely, foreign policy's limited impact in the ballot box even as the world outside the United States was rapidly changing with the end of the Cold War.

Candidate Clinton was initially spared the need to articulate a detailed foreign policy, past the broad goals of military restructuring, promoting democracy, and elevating the role of economics (Brinkley, 1997). President Clinton, in the first few months of his office "made only four major foreign policy speeches," all of which "stressed continuity with his predecessor's policies" (ibid). Clinton's foreign policy was criticized by Leslie Gelb, then President of the influential Council on Foreign Relations as being merely an trade policy, instead of a foreign policy – in the realm of international diplomacy, as in the election, it was all apparently 'still the economy.'

From Containment to Enlargement: Articulating a Foreign Policy Doctrine

In the context of such criticism, members of Clinton's administration took the ideas that candidate Clinton had articulated, and asked to formulate those broad concepts that into a grand strategy, and finally to find an attractive name for the policy. The winning name was "enlargement," and was defined as the need to "strengthen the community of market

democracies... foster and consolidate new democracies and market economies... counter the aggression and support the liberalization of states hostile to democracy, and help democracy and market economies to take root in regions of greatest humanitarian concern" (ibid, summarizing a speech given by National Security adviser Anthony Lake). The order of this summary of the policy as important to its description as items in the summary themselves, as becomes clear when seeing how the policy was framed and packaged from its initial introduction onwards. Lake, then-National Security Advisor for the Clinton Administration, sought a term that would be more than just a "grab all euphemism," but would "merge strands of neo-Wilsonian idealism with hard-core neo-Morgenthauian realism" (ibid), Enlargement sought to make policy out of the so-called "neo-neo synthesis."

In describing Enlargement, Lake spelled out the hallmarks Clinton's foreign policy over the next seven years. Enlargement was presented as the logical extension of the Cold War policy of Containment. Containment was recast as a defensive policy when Communism was a threat to market democracies. With that threat gone, the emphasis could become offensive, of enlarging the global sphere of market democracies. Foreign policy and domestic policy were becoming inevitably intertwined given mutual benefits from trade: "The line between foreign and domestic policy has evaporated," Lake (1993) proclaimed. Success abroad could be defined largely by success at home: A successful American foreign policy would keep Americans safe while enriching them through trade. The end of the Cold War meant that American ideals had lost their main opponent, and it was time to consolidate and expand upon the sphere of the world where they were enacted.

“Enlargement” was designed to be both aspirational and operational: It would lay out a positive blueprint for the aims of American foreign policy while also delivering real benefits in the real world. Lake articulated four goals for Enlargement at his speech at Johns Hopkins University on September 21st, 1993: The United States would work to “strengthen the community of market democracies,” “foster and consolidate new democracies and market economies where possible,” “support the liberalization of states hostile to democracy.” America’s humanitarian agenda would best be served if we “help democracy and market economies take root” (Lake 1993, emphasis added). The speech emphasized that the strategy must be “pragmatic” and “befriend non-democratic states for mutually beneficial reasons.”

The Liberal (in both the economic and international relations sense) basis of the Clinton policy was clearly evident in Lake’s speech. Democratic and market freedoms were seen as intertwined, and the success of one would lead to the success of the other. “Both processes [of developing democratic freedoms and market economies] strengthen each other,” Lake (ibid) explained, “democracy alone can produce justice, but not the material goods necessary for individuals to thrive; markets alone can expand wealth, but not that sense of justice without which civilized societies perish.” These two freedoms were seen as transcending cultures and regions (ibid), and so could and should be “sold” to the entire world. Where there was an opportunity to create, consolidate or strengthen even nascent democracies or market reforms, it would be the mission of the United States to help grow these seeds, “especially in states of special significance,” (ibid) a situation which may have later explained the moves towards the USJFTA. Lake noted specifically that Enlargement would sometimes mean supporting and defending non-democratic states due to mutually aligned interests (ibid), such as support for

America's key ally, Israel. Nonetheless, the basic premise of the liberal vision – democratic governments within states, trade between states, and international institutions to bind states – was embodied in the policy of enlargement.

Enlargement was positioned as the reverse of the “domino theory” that drove American decision making during the Cold War. As autocratic regimes fell, newly elected leaders would be expected to deliver greater personal freedoms and economic prosperity to maintain legitimacy. The policy was to deliberately search for the “dominoes” that seemed poised to tip over already: “We should be on the lookout for states whose entry into the camp of market democracies may influence the future direction of an entire region” (Lake 1993). In doing so, the goal was to both strengthen and stabilize the Western-oriented international economic order. Even in remaining autocratic regimes, a move towards market-orientation would strengthen the middle class, both in their number and in their political importance and perceived importance to the global economy. These middle-class consumers would be expected, of course, to consume a growing quantity of American goods and thereby benefit the American economy, even as they worked to create a system that would ultimately be more fertile for American-style markets and democracy.

The Middle East peace process “was considered to be important to the global economy,” (ibid) and thus would remain a priority even as more broad humanitarian concerns were de-emphasized from American foreign policy. Enlargement stemmed from the Liberal and Neoliberal belief that peace, economic development, and democratization were interrelated, and that these forces could stop the growth and spread of extremism. While academics

disagreed on the causality between these relationships, Enlargement was a bet that economic development could be causal, and that economic liberalization would bring about growing prosperity. After that, economic and political gains from become mutually reinforcing. Lake's speech makes note of the importance of humanitarian concerns but it is clear that the speech was written at a time that the costs - both direct and in American lives - of such missions were in the forefront. Enlargement gave a strategic and intellectual rationale for structuring foreign policy around "low-hanging fruit," nations which were already taking steps towards democratization or a market based economy. The hope was that over time, the benefits to "joining" the (American-led) global regime of liberalized markets and support for liberal democracy and peaceful economic competition would spread as nations saw their "enlarged" neighbors prosper and sought to emulate their successes by joining the 'Enlarged sphere' themselves.

Viewed through the lens of Enlargement, bilateral free trade agreements hold appeal from multiple angles. They exist at the nexus between economic and foreign policy, which, under Enlargement, might have been viewed merely as different sides of the same coin. First and foremost, an FTA could move a nation definitively towards the path of an open, market-oriented economy, and they directly expose a country to the American economy, market, and through that, to American society. Bilateral FTAs, as negotiated, tend to have any number of definitions, restrictions and "clarifications" on the way that markets should work within signatory nations. (These help ensure, for example, that a signatory nation doesn't subsidize industries in unfair ways, or merely take goods from another country, place a new label on them, then ship them onwards.) These can be used to promote the development of American-style market-based

economies, and additionally, to achieve any other number of ends connected to production, law or labor. The closer connection of economics to politics was not lost on commentators. Lake mentions now effectively is measured by economics as much as democracy, a fact which didn't escape journalist Martin Walker, writing in 1996 on Clinton's foreign policy: "The age of geopolitics has given way to an age of geo-economics... the great international encounters are the trade pact" (Walker, 1996). In an era of globalization, where the growth of market-based economies was no longer checked by the Soviet Union, focusing on the primacy of geo-economics to achieve geo-political goals makes logical sense.

Over time, the hope of Enlargement is that the reduction in trade barriers between the United States and signatory nations would engender the development and growth of a significant middle class, with stakes both in the economic health of the nation, and, thereby, in the functioning of a predictable judicial system with significant rule of law. The middle class would become significant stakeholders in having a strong, functioning government; in other words, it would help create a group of people who would have a stake in democratization.

The USJFTA: Basic Elements and Evaluation

It is in this context that the United States embarked upon negotiations for a free trade pact with Jordan. As the only free trade agreement primarily negotiated under the Clinton Administration, the pact can be viewed as the paradigmatic example of Clinton's Enlargement strategy. Jordan was ideally positioned as a test case in a number of ways; it is a small nation, and thus, unlike the trade agreement with a much more economically significant Canada or Mexico, the American

negotiators had a greater ability to draft the agreement on their own terms. Jordan had been economically unimportant to the United States, and there was, as described in the next chapter, no significant domestic economic group or lobby which would be the obvious "loser" if an FTA was signed with Jordan – so unlike the opposition to NAFTA, it was hard to say that there were a great number of American jobs "on the line." Jordan was now, following the peace treaty with Israel, firmly in the camp of "American ally." Furthermore, the Middle East had long been a special interest for American foreign policy at least since President Carter negotiated the Israeli-Egyptian Camp David Accord in 1978, but progress towards that goal had been halting, at best. One of the significant hopes of Enlargement was that its successes would snowball - that once Jordan succeeded, its neighbors would scramble to receive the same benefits and treatment that Jordan did. This opened the prospect that Enlargement could finally provide the "formula" for achieving peace in the Middle East after decades of failed attempts.

The USJFTA has many similarities to NAFTA in its scope and aims. Khasawneh and al Khouri (2002) summarize the pact's main provisions. Tariffs on trade between the US and Jordan would be eliminated on a staged basis. The United States would eliminate tariffs on most Jordanian goods almost immediately, while Jordan's government, which was more dependent upon tariff revenue, would reduce them at a slower schedule. The schedule ranged from a two-year phase out for tariffs under 5% to a decade for tariffs over 20%. The United States granted Jordan an exception on tariff elimination for some goods such as automobiles, cigarettes and alcohol due to their importance to Jordanian government revenue. Both nations also liberalized access to service markets, although Jordan's ascension to the WTO had a greater effect in this regard than the FTA. The USJFTA also provides for the protection of intellectual property rights and prevents

both countries from placing custom duties or other trade restrictions on e-commerce (a first for a US-affiliated free trade agreement). The Agreement also provides for labor and environmental protection in its main text, also a first for an FTA with the United States. These provisions are evaluated in the next chapter. Finally, the USJFTA provides for consulting to encourage transparency and head off potential issues before they become trade disputes; the Agreement also contains procedures for dispute settlement if such efforts are unsuccessful.

To begin, the Agreement was designed to solidify the peace treaty between Israel and Jordan, and prevent “backsliding” into hostilities. The Agreement sought to do this by providing benefits to the citizens of Jordan by using the Agreement to create and support employment and wage growth in Jordan. Before the Agreement was signed, these benefits were tied directly to the Israeli peace process in form of Qualified Industrial Zones. The Agreement was a second means of supporting employment and wage growth in Jordan. Supporting job and wage growth in Jordan forms the second foreign policy goal of the Agreement, and is evaluated in the third chapter. A third goal of the agreement was to encourage other Arab nations to follow Jordan toward improved ties with Israel. The hope was that a successful Agreement, combined with the other elements of Jordan’s peace dividend, would provide a model for others to emulate. Taken together, success along these goals would provide a successful example for the Clinton Administration’s policy of Enlargement, and would solidify the policy’s use by future administrations. In the long run, it would also create a world with more stable market-oriented democracies, the fourth goal of the USJFTA. Finally, the hope was that the Agreement, through increased economic stability and (possibly, as per Enlargement) democratization,

The question, then, is whether or not these goals were achieved. Foreign policy is notoriously difficult to evaluate, but, based upon the aforementioned goals, one can make a determination about the relative success of the Agreement. On the first count, Jordan and Israel have maintained a strong relationship that has shown an ability to withstand tension and grow over time. This relationship is particularly evident in terms of energy production. Jordan has long had an issue with energy supplies, and had sought nuclear power technology from the United States, to which the Israelis voiced objections (Bar'el 2010). This resulted in Americans withdrawing support for Jordanian nuclear power, leaving Jordan without a solution to its energy problem. Showcasing the broad working nature of the Jordanian-Israeli relationship, in 2014 Israel agreed to provide Jordan with \$500 million a year of natural gas from its fields in the Mediterranean Sea, alleviating Jordan's energy issues after supplies from Egypt, Jordan's former principal supplier, were interrupted (Yaakov et al 2014). Their relationship has also weathered tension over holy sites in Israel that were placed under Jordanian administration in the peace treaty (Welsh 2014). Independent observers (Welsh, 2014) and even critics have commented on the "closeness" of the Israeli-Jordanian relationship (Abu Amer, 2016). The USJFTA is not the sole, or even primary, reason for this enduring relationship between Israel and Jordan. As argued earlier in this chapter, Jordan and Israel found that they had common interests, particularly on Palestinian issues. However, the USJFTA should be viewed as a key aspect of Jordan's "peace dividend."

The second goal of the agreement was to encourage economic growth and development in Jordan, increasing employment and providing benefits. Giving the significance of this goal to the broader question of free trade policies writ large, it is evaluated in detail in the third chapter.

The third goal was to create a substantial enough peace dividend for Jordan so that other Arab nations would be encouraged to follow suit. On this front, the USJFTA has not been successful. No Arab nations have signed a peace treaty with Israel since Jordan, (though this may have more to do with regional events than the success or failure of the USJFTA). Several Arab nations, such as Qatar and Bahrain established trade relations with Israel in the 1990s, providing hope that full diplomatic relations could ensue; however, both missions were closed by the opening years of the 21st century (Machowski, 2011). It seems, however, that, as happened with Jordan, covert ministerial-level contacts in support of the peace process have occurred in recent years (Ravid, 2011), meaning that public statements do not necessarily tell the full story of the state of relations. However, expecting other Arab nations to follow Jordan's example was always a high bar to pass. It took 25 years after Egypt normalized relations with Israel for Jordan to follow suit. Furthermore, as argued earlier in this chapter, Jordan was unique amongst Arab states in believing that the PLO provided a threat to its security, creating shared interests between Jordan and Israel that other Arab states, and Gulf states in particular, do not share with Jordan.

The third and fourth goals – of the USJFTA as an example of “Enlargement,” using market-oriented reforms to support the creation of a middle class and eventual democratization of Jordan, and the use of the USJFTA to support Jordan's stability by providing it with economic opportunities and hard-currency earnings alongside new jobs for its citizens, can be evaluated partially at best. The Clinton Administration's “Enlargement” policy was an overarching framework to combine trade policy along with long-term American goals of human rights and democratization. The term was not widely used even by the Clinton Administration, and was not used by later presidents. The USJFTA, however, can still be evaluated by the stated goals of

Enlargement, which believed that market-oriented reforms would support the creation of a middle class, leading to eventual democratization. The third chapter evaluates the economic success of the Agreement, but it's fair to say that the USJFTA has not been a significant provider of middle class jobs in Jordan. It has, however, provided the country with billions of US dollars per year, even if it has not eliminated Jordan's trade deficit or solved all of its economic issues (see Chapter 3 for economic data).

However, Jordan has proven to be remarkably stable, and has shown an ability to carry out successful political reforms. As the Arab Spring caused uprisings – and often violent overthrows of governments and subsequent reprisals, only Jordan and Morocco maintained their existing governments and implement constitutional reforms (Amnesty International, 2016). The government has remained in power, which places Jordan in a relatively unique place out of the “oil-poor” Arab states. Unlike nations like Egypt, Libya and Yemen, Islamist uprisings haven't turned violent. Although there were protests in Jordan, and the government went through a number of prime ministers and cabinets as the government sought an acceptable way to provide reforms without losing security, in the end the government implemented constitutional reforms that brought Islamist groups into the political fold and had them participate in recent elections (they had boycotted an earlier election in 2013). This led the American NGO Freedom House to move Jordan to its list of “partially free” countries from “not free” – making it one of only three countries in the region to be labelled “not free” (the others are Israel, “free,” and Kuwait and Lebanon, “partly free”) (Freedom House, 2017).

None of these results, of course, could be entirely attributed to the United States-Jordan Free Trade Agreement. The USJFTA was part of a series of “peace dividends” given to Jordan, starting with debt relief, and including military benefits, along with the economic-oriented USJFTA and QIZ programs. Furthermore, neither the successes nor the failures of Jordan towards democratization could truly be attributed solely to a trade agreement. Finally, to the extent that Jordan has been unique, both through signing a peace treaty with Israel and in its ability to bring Islamist groups into the political fold following constitutional reforms, these characteristics have much more to do with Jordan’s existing characteristics as they do with anything that the American government did (or could have done) to encourage Jordan. However, to the extent that governments have limited foreign policy tools, it would seem that the USJFTA has been a tool that has helped encourage Jordanian stability and prosperity, and as such, can be regarded as a successful, if not omnipotent tool of foreign policy.

Conclusion

Evaluating the United States-Jordan Free Trade Agreement should be done through a number of different perspectives. This chapter evaluated the USJFTA as a tool of foreign policy, both in how it relates to American goals in the Middle East and in terms of how it relates to global American foreign policy aims. Regionally, this chapter argued that the Agreement came as part of Jordan’s “peace dividend” for normalizing relations with Israel. Israel is viewed as a (or *the*) key US ally in the region, and as such, steps that support Israel’s security and stability are highly important. This chapter evaluated the history of Jordanian-Israeli relations to demonstrate that Jordan’s perspective on Israel, even in decades prior to the formal peace treaty, was unique amongst

Arab nations. Both Jordanian and Israeli governments came to view Palestinian groups, and the PLO in particular, as a threat to their sovereignty, creating a shared interest that eventually expanded to the point where normalized Israeli-Jordanian relations were possible.

The Clinton Administration actively sought to support the Israeli-Jordanian peace process, serving as a mediator through negotiations, and providing Jordan with an incentive, in the form of \$700 million of debt relief if a peace treaty was signed. The Administration recognized the need to create a significant peace dividend for Jordan after a peace treaty was signed for two reasons. First, the peace dividend was designed to visibly demonstrate the benefits of normalizing relations with Israel to other nations in the region, in hopes that they might follow suit. Second, the Administration sought to encourage economic growth and stability in Jordan to head off any potential unrest or unease from the population about the peace treaty by providing tangible economic benefits to normal Jordanians.

In addition to the debt relief, the Administration pursued the first aim through a variety of means, including selling F-16 fighter jets to Jordan at a “low cost, no cost” financing rate, and naming Jordan to be a Major Non-NATO Ally, a designation that it would share with Egypt (the first Arab nation to make peace with Israel), Israel and major American allies in the Pacific including Japan and South Korea. The Administration pursued the second aim through the creation of a Qualified Industrial Zone program, designed to foster Jordanian-Israeli economic ties, and through the United States Jordan Free Trade Agreement.

The Israeli-Jordanian peace came about shortly after the end of the Cold War. As the first president elected after the end of the Cold War, it was up to Clinton and his administration to

create a new overarching goal for global American foreign policy to replace the previous policy of “Containment.” The Administration settled on “Enlargement,” which deliberately sought to merge economic and foreign policy along three aims: strengthen existing market democracies, encourage new democracies and market economies, and support the liberalization of non-democratic, non-market oriented countries. The underlying theory behind Enlargement is the belief that economic liberalization encourages the growth of a prosperous middle class who will take on an increasing role in the economy, and as a result, the politics, of a nation. The USJFTA fits perfectly within this framework: Jordan had begun a process of economic liberalization and the peace treaty with Israel underscored the possibility of political liberalization. The hope was that the Agreement would lead to increased trade and economic opportunities in Jordan, which would be filled by a growing middle class, who, in time, would earn an increasing role in political decisions in Jordan.

The USJFTA as a tool of foreign policy should therefore be evaluated from the perspective of American aims in the Middle East and in terms of how well it does at achieving the goals of Enlargement. From these perspectives, the Agreement has been a qualified success, although it is difficult to attribute success or failure along any criteria solely to a single foreign policy tool. It therefore generally provides evidence for the Liberal theory of international relations of which the Clinton Administration was consciously aware as they crafted the Enlargement doctrine. Jordan and Israel continue to have normalized relations and enjoy a working, functional relationship that has shown the ability to grow and change over time. No other Arab nation has normalized relations with Israel since Jordan, although Jordan’s unique relationship with Israel prior to the peace treaty, as well as the domestic politics in other Arab nations may have made

normalized relations unlikely without a resolution of the Israeli-Palestinian peace process. The Agreement has fostered Jordanian trade, and deepened Israeli-Jordanian economic ties, however, Chapter 3 will demonstrate that it has not fostered a middle class. Jordan has, however, taken steps towards democratization after the Arab Spring, and the USJFTA should be viewed as one of the sources of stability which enabled the Jordanian government to enact reforms, unlike neighbors who were unable to do so without violent revolutions.

Chapter 2: The USJFTA as an Example of A New American Trade Policy

Introduction

The previous chapter evaluated the United States-Jordan Free Trade Agreement as an instrument of foreign policy. It argued that the USJFTA sought to enhance American interests in the Middle East, rewarding Jordan after finalizing a peace treaty with Israel. Chapter 1 also demonstrated how the Agreement fit in to the Clinton Administration's foreign policy framework of Enlargement, which sought to combine American foreign and trade policies to enlarge the global community of market democracies. Enlargement sought to strengthen existing market democracies and to encourage and support the opening of markets under the belief that open markets would create a middle class that would, in turn, support democratization. Enlargement therefore combined many aspects of trade and foreign policy. Bilateral free trade agreements were a relatively new phenomenon in American foreign policy as the USJFTA was being negotiated, however. For the first three decades after World War II, the United States negotiated large multilateral trade deals under the General Agreements on Tariffs and Trade (GATT) framework. This process had widespread bipartisan support from both Congress and multiple Presidential administrations.

GATT consisted of multiple rounds of tariff reduction negotiations. Initial rounds were limited largely to industrialized Western nations. Over time, the rounds grew to encompass a greater number of nations and expanded past industrialized countries into the developing world. This, when combined with global economic malaise coming out of the 1970s slowed the pace of

negotiations significantly, and eventually caused the Reagan Administration to begin negotiating bilateral free trade agreements. The shift towards bilateral FTAs as prospects of continued global trade deals dimmed marked a phase change in post-War American trade policy. Although bilateral FTAs enjoyed some bipartisan support in Congress, Democratic presidential candidates remained opposed to them up through Clinton, who expressed qualified support for NAFTA, an agreement that was undergoing final negotiations at the time of the 1992 presidential election.

This chapter will examine American trade policy after the Second World War. It will first evaluate the GATT process, including the issues that delayed the opening of the Uruguay Round, the issues which prolonged that round of negotiations, and the Clinton Administration's views on the GATT (later WTO) process. It will then discuss the shift to bilateral free trade agreements in US trade priorities, with a special focus on Clinton's decision to support NAFTA and subsequently to begin negotiations on new bilateral FTAs. The chapter will argue that Clinton sought to create a broad, bipartisan basis for bilateral free trade agreements by addressing concerns from key Democratic constituencies on labor and environmental issues. This chapter will then demonstrate that a large portion of the debate over the USJFTA was focused on these two issues. It will then evaluate the specific labor and environmental provisions in the USJFTA and the impact of these provisions on subsequent American trade deals.

Post-War American Trade Policy and GATT Negotiations

In the decades following World War II, the United States global trade policies were a series of trade negotiations under the General Agreement on Tariffs and Trade (GATT). The United States was especially vocal pushing for principles of universalism and non-discrimination (Hufbauer and Schott, 1998). As such, the United States sought a global marketplace with few or no tariffs. In

this context, bi- or multilateral FTAs were at best an unwelcome distraction, and at worse, would encourage other small trade pacts by between other nations which would put the United States at a competitive disadvantage (ibid).

“The driving force behind the GATT was the same as that which motivated the Bretton Wood conference in 1944: the interwar disaster,” Irwin (1995) states in his summary of GATT’s history. The interwar years were marked by increased economic protectionism, and an institutional framework organized through the League of Nations that did not ultimately foster peace. The initial plan after the war called for the creation of an International Trade Organization alongside the World Bank and International Monetary Fund under the auspices of the United Nations. The creation of this organization was delayed, and by the time that a treaty was ready, Congressional support for further internationalization had weakened substantially, and in the end an agreement was never submitted to Congress (Diebold, 1952). GATT formed by taking only the commercial policy sections of the ITO’s charter, narrowing the force significantly (Irwin, 1995). This was a conscious effort to create institutions that would foster connections between free market economies, increasing trade while providing a system of international institutions that would prevent a third World War, following the Liberal Institutional framework (Ikenberry 1992, 1998). The United States consciously encouraged a postwar global institutional framework that worked in two spheres: The first, truly global institutions such as the United Nations that included Communist states and were comparatively weak, and the second, relatively stronger institutions between market economies designed to foster growth and stability in capitalist nations (Irwin, 1995). GATT was an example of this second, smaller sphere of market economies.

GATT negotiations made progress “in fits and starts” (ibid), resulting in little progress for 15 years, other than slight improvements in tariff rates and adding new GATT members in the Annecy (1949) and Torquay (1950-51) rounds (ibid). The next significant change in GATT came about as a result of the creation of the EEC, once again making trade policy a priority for the United States (ibid). The Dillon Round (1960-62) resulted in \$4.9bn in tariff reductions, but these were achieved through a laborious item-by-item process. The subsequent Kennedy Round (1964-67) involved 48 nations resulted in \$40 billion in tariff reductions, and became the first round to include non-tariff issues such as anti-dumping measures and trade and development for industrializing nations (Endo, 2005). It took a full six years after the conclusion of the Kennedy round for the Tokyo Round to begin.

The Tokyo Round (1973-79) involved 102 nations, more than double the previous number of participants and included, for the first time, many developing countries. These negotiations occurred during a time of “New Protectionism” as global economic growth slowed significantly, which disproportionately disadvantaged developing countries (Meier, 1981). In the end, the Tokyo Round agreed upon tariff reductions, but only over a phased 8 to 10 year period, and while the developing nations did not come away entirely empty handed after taking a seat at the negotiating table, evaluations of the results of the Tokyo Round for developing countries ranged from “mixed” to “unsatisfactory” (ibid). This was due in no small part to the new protectionist orientation of the United States, which (along with a few other developed countries) insisted that textiles and other goods exported from the developed world be exempted from the round, relying instead on limited quota numbers (ibid).

The Uruguay Round involved even more nations and took even longer, a total of 87 months (Fieleke, 1995). This round led to the creation of the World Trade Organization. Unlike the Tokyo Round, the Uruguay Round provided more advantages to the developing world, reducing the tariffs on finished product exports more than on semi-finished or unfinished goods, effectively providing net encouragement to developing countries to manufacture products instead of exporting only commodities (ibid). Though the round ultimately reached a successful conclusion, the process was described as “stalled” in the popular media during its negotiation (UPI 1990, Tumulty, 1991). The lack of progress got to the point that GATT’s own director general was quoted as saying that delays “would seriously damage the already rocky credibility” of GATT negotiations (Tumulty 1991). The subsequent Doha Round did not begin until 2001, and shows no signs of concluding in the near future (BBC 2012).

The successes and failures of the GATT process should be put in perspective. From 1948 through the end of the Uruguay Round, the GATT process was successful in greatly reducing tariff levels: in the industrial world they dropped from an average of nearly 40% in the immediate post-World War II period to roughly 5% (Irwin, 1995). Each round of negotiations was increasingly fraught and complex. The final Uruguay Round document totaled over 23,000 pages (Fieleke, 1995). Furthermore, even as overall tariff levels decreased, they were not being harmonized. Each participant nation agreed to alter its tariffs by a certain amount from its existing levels. While the trend was generally for nations with greater tariffs to have greater reductions, the trend was not universal, either between countries or across industries from one country (Fieleke, 1995). In effect, the Uruguay Round could be viewed not as a single trade deal, but instead trade a separate trade deal from all 123 participating nations with all others. The Uruguay Round also

explicitly allowed for “plurilateral” agreements – in effect, “sub-agreements” of only a select group of participant nations (ibid), further adding to GATT’s complexity.

The Slow Shift to Bilateral FTAs

It was in this context that the Reagan Administration began to negotiate bilateral free trade agreements. Given the complexities and slow progress of the Uruguay Round, the appeal of bilateral FTAs is understandable: Unlike GATT, they are between only two parties. That makes them easier to complete. Furthermore, while with GATT forces one nation to take the “prix fixe” menu of tariffs of another, bilateral FTAs can be tailored towards specific economic needs or goals. Finally, there was some hope that bilateral free trade agreements might be used to “force the hand” of reluctant nations and encourage them to finish the Uruguay Round negotiations.

The first bilateral FTA which the United States negotiated was with Israel, an important ally in the Middle East with a large and active lobby in the United States (Baucus 1989, Rosen 1989). The FTA was passed off as an opportunity to support a key ally in the region which was in a unique geopolitical situation due to strained relationships with virtually all of its neighbors and trading partners. If not quite a “one-off,” the US-Israel FTA was sold as being a way to support an American ally in a unique situation, rather than the beginning of a shift the priorities of American trade policy. Interestingly, the US-Israel FTA can be justified by both realist considerations (strategic interest of supporting Israel), and liberal ones (binding the societies together through trade).

Three years later, the United States signed a free trade agreement with Canada. The justification for the FTA with Canada being that for geographic, cultural and political reasons, the Canadian

and American economies had been closely intertwined for decades, and intra-industry trade and investment was common and would be further enhanced with further reduction in trade barriers. The United States and Canada had negotiated a series of pacts in individual industrial sectors beginning in the 1960s, starting with the Canada-United States Automotive Products Agreement (the “Auto Pact”). The Auto Pact led to a binational automotive industry centered in the Detroit area along both sides of the border (Crane, 2015). Canadians, in particular, had pressed for a more comprehensive agreement covering all trade sectors, and it was Canadian Prime Minister Brian Mulroney who initially wrote to President Reagan requesting “the broadest possible package of mutually beneficial reductions in barriers to trade in goods and services” (McCrath, 1985). Although the negotiations had been fraught – with Canada’s lead negotiator actually calling the negotiations dead at one point – a deal was struck right as the deadline for negotiations ended (Hart et al., 1994). Just as the US-Israel FTA was justified due to Israel’s unique position, the US-Canada FTA was also justified due to unique circumstances. Talks for the agreement were initiated at Canada’s behest, and the United States is by far Canada’s most important trading partner. From an American perspective, Reagan was an ardent supporter of reduced tariffs, giving the agreement some appeal at face value, and negotiating the US-Canada Agreement might have been intended to provide an impetus for resolving GATT negotiations, signaling that the United States would precede liberalizing trade outside of the GATT process if necessary, an “insurance policy” in case GATT did not succeed (Baucus, 1989).

Negotiations on the North American Free Trade Agreement (NAFTA) began in 1991, which created further trade liberalizations between the US and Canada and also included Mexico (Lauterpacht et al., 1999). This time, the new agreement was justified as it would “strengthen a

neighbor's [Mexico's] economy" (Feinberg, 2003). The Agreement signed on December 17, 1992, barely a month after the 1992 Presidential election (Lauterpacht et al, 1999), and had been an issue of political contention throughout the race.

Clinton and NAFTA: Qualified Support for Free Trade

Unlike Republicans, Democrats had been generally ambivalent towards free trade agreements.

While there has always been a section of the caucus that has voted in favor of free trade, others expressed concerns and voted against agreements. Passage of the US-Canada FTA was largely uncontroversial, but the debate about adding Mexico to the agreement caused significant debate in Congress and elsewhere. In 1991 as the agreement was being drafted, Congress voted to extend "fast-track" authority to then-President Bush for both NAFTA and the Uruguay Round of GATT negotiations. This obligated Congress to vote on the signed treaty, as written with no amendments or modifications, and within a specified time period. Fast track was considered essential completing a ratified treaty, and it is likely that if the authority had not been granted, the treaty would have been functionally dead in the water (Avery, 1998). A resolution which would have denied the President fast track was defeated in Congress in 1991, with 91 Democrats siding with 140 Republicans in the House, and 23 Democrats voting with 36 Republicans in the Senate (Deveraux et al., 2006), clearing the way for continued talks. Democratic Presidential candidates, however, had not supported bilateral free trade deals.

This left candidate Clinton with a choice in the 1992 Presidential campaign. He could have followed the example set by Dukakis in 1988: During that election, Dukakis refused to say whether he would have signed the US-Canada Free Trade Agreement, instead, making promises on other trade issues to unions and remaining non-committal on the bilateral FTA (Farnsworth

1988). He could have opposed the agreement, thereby appealing to unions who were skeptical of free trade, and who had long been a key source of votes and volunteers for Democrats, or he could have supported the agreement.

Initially, Bill Clinton vacillated in his support for NAFTA, which allowed President Bush to try and labeling Clinton as a "protectionist" (Bush, Clinton and Perot, 1992). In the end, Clinton charted a middle course. About a month before the election, Clinton voiced support for NAFTA so long as "additional protections" were negotiated "for labor and the environment" (Deveraux et al., 2006). Clinton was trying to become the first Democrat to win the White House since Carter in 1976, and his candidacy openly tried to expand his party's base of support to do so. Clinton successfully cultivated a larger degree of support from business groups than previous Democrats had in the running for president as part of his "New Democrat" label, but he also had to be mindful that he could not avoid alienating the traditional power base of unions or the increasing environmental vote.

Clinton reiterated and clarified his support in the third 1992 Presidential debate, after Ross Perot famously stated that NAFTA "would create a giant sucking sound of American jobs being pulled out of the country" (Bush, Clinton and Perot 1992). Clinton argued that the agreement would do "more good than harm if we can get protection for the environment, so that Mexicans have to follow *their own labor standards, their own labor law standards*" (ibid, emphasis added). Those words and concept would later be significant in the USJFTA, which prescribed that both nations maintain their old labor laws, instead of creating new standards that were mutually negotiated. In supporting NAFTA, but with side protections for labor and the environment, Clinton won the

support of several major environmental groups, no labor groups, and a number of Democrats in Congress (Devereaux et al, 2006). However, the restrictive nature of the agreement - to enforcing national labor and environmental laws, instead of to agreed-upon standards for labor and environmental protections - was a politically necessary move to maintain support for Republican lawmakers, who opposed any mention of labor or the environment in a free trade agreement as a matter of principle.

The path he charted - of supporting trade liberalization while being vocal about concerns of labor groups and the environment - allowed him to win support from key business groups while also reducing the damage to relations with labor groups (specifically the AFL-CIO, who had spent a quarter century arguing against trade liberalization) and environmental groups (which had been more variable in their positions on trade but which voiced concerns about NAFTA) (Destler, 1996).

Clinton's compromise position - of enforcement only of national laws - eased Republican sovereignty concerns but resulted in labor and environmental side agreements which "Republicans could live with... because neither of them really had sanctions involved" (Devreaux et al., 2006). At the same time, Clinton Administration officials convinced Mexican and Canadian negotiators that such side agreements would be necessary for Clinton to ensure passage of the NAFTA - generating both internal and external political support for the side agreements at once. Clinton waited until the labor and environmental agreements were negotiated before pushing for passage of NAFTA. He was thereby able to secure support from the National Wildlife

Federation and Environmental Defense Fund, which weakened the impact of other key environmental groups that remained opposed to the Agreement (Destler, 1996).

Although no labor group voiced support for NAFTA, the labor agreement did inhibit their ability to mount an effective campaign against the agreement, and provided political cover for Democrats to vote for the Agreement. In the end, Clinton secured the support necessary to get his labor and environmental side agreements passed (Yang et al., 1999), in January 1994, although the vote for the labor agreement was particularly close, at 224 in favor versus 200 opposed (Pomeroy, 1995).

In charting a path to the passage of NAFTA and the promised side agreements, the Clinton Administration showed early signs of its political adroitness: It created a coalition in support for NAFTA sufficiently large and broad to ensure passage, even if labor groups, some environmental groups and some Democrats in Congress may not have liked the level of protection in the agreement, and even if some Republicans may not have liked to connect free trade, labor and the environment at all. His statement that NAFTA would do “more good than harm” is telling. NAFTA may not have been perfect, but in the end, by softening the “sharp edges” of free trade by adding environmental protections, Clinton believed that free trade agreements were a net positive.

Clinton’s new administration shepherded NAFTA’s passage at a time when Democrats held control of both houses in Congress, eventually drawing the support of 102 of his own party along with 132 Republicans in the House and 27 Democrats and 34 Republicans in the Senate (Hufbauer, 1993). NAFTA showed that the Clinton Administration’s ability to generate a

bipartisan coalition around free trade agreements: Sufficiently large numbers of Republicans could be persuaded to support free trade agreements, even with the labor and environmental protections necessary to garner enough Democratic support to ensure passage.

The United States-Jordan Free Trade Agreement: Clinton's Take on FTAs

Clinton's position on NAFTA provided an indication as to his future ambitions regarding free trade. Bilateral Free Trade Agreements fit in well with Clinton's "Enlargement" model for foreign policy, which sought to expand market economies, support trade and thereby encourage the growth of a middle class, and thereby, democratization. They also were a tool of foreign policy that the Administration could wield even as Congress sought to decrease spending on foreign aid outlays after Republicans took control of Congress following the 1994 midterm elections (Tarnoff and Nowels, 2004). These combined to make FTAs a prime tool of foreign and trade policy for the Clinton Administration: Although the US-Jordan Free Trade Agreement was the only agreement that was negotiated and finalized during his time in office, the administration also began negotiations on a number of others: "if John Foster Dulles had been accused of "pactomania" for engineering so many security treaties, Clinton was practicing pactomania for free trade" (Brinkley, 1997).

Clinton supported NAFTA as final text was written and signed in the month before he took office, without labor or environmental protections, and instead supported inclusion of those provisions in side agreements. Several observers argued that side agreements do not have the same force as provisions in the main body of the text (Hinojosa-Ojeda and Robsinon, 1992; Polaski 2003; Pomeroy 1995; Stern 2003). As his Administration began negotiating a free trade agreement with Jordan, they moved the labor and environmental protections of the agreement to the main

body of the text and made them “enforceable” – that is, that options up to and including the use of border adjustment fees (essentially, renewed tariffs) can be used to ensure that the provisions are followed (Bolle, 2001).

There is a variation in the expert opinion on how strong the labor and environmental provisions in the Agreement actually are. Some experts have argued that the inclusion of these provisions set a new standard for free trade agreements. Some experts believe they will do good, providing substantial worker protection (Elliot 2003). Others argue they will cause harm: Grynberg (2001) argues that including labor and environmental provisions could be seen as “environmental and social dumping” – forcing nations to take the standards from other countries just to secure preferential tariff treatment. Economists, in particular, are skeptical that labor standards are best addressed through trade policy (Summers 2001; Brown, Deardorff and Stern 1996; Srinivasan 1995). There is also the question of if (or how) the measures will be enforced: A published letter from the then-United States Trade Representative to the Jordanian Ambassador before the treaty was implemented, he said that governments in the treaty “would not expect or intend to apply the Agreement’s dispute settlement enforcement procedures in a way that results in blocking trade.” (U.S. Trade Representative, 2001). Weiss (2003) argues that even if enforcement procedures were started, the supranational level of the agreement means that changes on the ground would take effect slowly, if at all. The debate about enforcement parallels that of the NAFTA labor and environment side agreements, when it was argued that enforcement of existing laws were often not enforced, and the procedure for a party of the FTA to ask for enforcement was slow and cumbersome (Pomeroy, 1996). By the standard of the USJFTA, a party must identify that a country has failed to enforce its laws “in a manner affecting

trade between the Parties” (US Trade Representative 2001b), which seems to be a substantial burden of proof. Following that, there is a period of consultation on the issue before any punitive measures can be pursued.

Clinton left office in January 2001 with the USJFTA finalized, but before it had been debated or ratified by Congress. When Congressional hearings on the Agreement occurred on March 20, 2001, the labor and environmental protections were a central point of the debate. The Bush Administration had been notably silent on passage of the Agreement, and did not send a representative to the debate over its passage (US Senate, 2001) leaving the Senate to bring in a former Reagan Administration staffer to essentially articulate a Republican position on the Agreement.

During these hearings, former Clinton aides unsurprisingly testified in support of the agreement, with former Charlene Barshefsky, US Trade Representative during the Clinton Administration, arguing that the Agreement was important because it would support trade integration – and thereby, peace – in the Middle East, a mindset which clearly fits well with Enlargement (ibid), and would support Jordan’s economic reforms which were a “model for the region” (ibid, 7), and would serve as a model for future agreements – not because of the trade and environmental provisions, which Barshefsky downplays as imposing neither “new standards nor bars change or reform of national laws.” Instead, the agreement is a model because of its inclusion of intellectual property protections and e-commerce provisions. Sandy Berger, who had served as National Security Advisor under Clinton, stressed the importance of the Agreement to reward Jordan because of the Kingdom’s “reconciliation with Israel and for close relations with the

United States” (ibid, 11), and therefore, for the Middle East peace process as a whole.

Moreover, he argues that support for the Agreement will send “a powerful message to the entire region” (ibid) that regional economic integration (presumably, including Israel) will provide tangible benefits to nations that follow Jordan’s example of “global integration, both economic and strategic” (ibid, 12). Both officials downplayed the trade and labor provisions, undoubtedly for strategic reasons.

Michael Smith, a Deputy US Trade Representative under the Reagan Administration, on the other hand, focused his testimony almost entirely on these provisions. He argued that although he can support “the concept of a free trade agreement between Jordan and the United States,” (ibid, 9), he takes exception to the labor and environmental provisions of the Agreement, arguing that there is no consensus that such provisions belong in such agreements (ibid), and that the wording of the provisions as written in the Agreement are confusing, making it unclear whether they are truly enforceable, and under what conditions they might be enforced. Either the provisions aren’t enforceable – in which case, they are “fluff” (ibid, 10), or they are, in which case they do little to advance labor or environmental causes because of they merely require each nation to maintain existing legal standards, he argues. The contrast between the two trade representatives is striking. Smith’s testimony was almost entirely focused on these two provisions, while Barshefsky mentions the provisions – in passing dismissively, focusing instead on the importance of the e-commerce and intellectual property provisions, which were also novel in this agreement.

During these hearings, there were two testimonies from industry and commerce: Timothy Deal, from the US Council for International Relations, and Tomas Donohue, from the US Chamber of Commerce. Deal, and his group, the US Council for International Relations, offer qualified support for the agreement, on the grounds that it supports the Middle East peace process, that more bilateral FTAs would generate impetus for greater movement in global trade negotiations under the WTO. However, he criticizes the labor and environmental provisions, which he characterizes as trade "as a club to impose US standards on others" (ibid, 12).

Underlying Deal's testimony is a sense that the Jordan trade agreements' primary importance was not as a deal in and of itself, but rather, as a signal to other nations. Ratifying the bilateral FTA pressures other nations to earnestly negotiate global agreements, but the labor and environmental provisions might discourage other nations – particularly in the developing world – from negotiating agreements with the US out of fear that these provisions would be forced upon their countries (ibid, 13). While Deal and the US Council for International Business took a qualified support of the Agreement (support the passage of the agreement on strategic grounds while making attempts to "walk back" the labor and environmental provisions), Thomas J Donohue, then President and Chief Executive of the US Chamber of Commerce instead chose to "stir up soup" (ibid, 28) and oppose the agreement. Donohue argues – as, in a roundabout way, Sandy Berger did – that the agreement was put into place for geopolitical, not trade considerations, given the relatively small volume of trade between the two nations. However, his testimony makes it clear that he (and the "business community" as he puts it) are adamantly opposed to the labor and trade provisions in the agreement, which he calls "unrelated" to trade (ibid). In fact, he goes as far as to state that the strategic arguments for the Agreement merely a

"subterfuge" for the labor and environmental provisions (ibid). In the end, the Agreement was ratified by voice vote in both the House and the Senate, indicating widespread support (Bolle, 2001).

The USJFTA's Effect on Subsequent Free Trade Agreements

The USJFTA was the most concrete example of Clinton's position on bilateral FTAs. The first chapter demonstrated how they fit in with the Administration's foreign policy goals. The Administration believed that these Agreements could also be good trade policy for the United States so long as labor and environmental protections were added, preferably in the main body of the text. The USJFTA was the only agreement whose negotiations began and were concluded during Clinton's time in office. Just as Clinton entered in office with NAFTA signed but not ratified, George W. Bush found himself in a similar position with the USJFTA. Possibly because of the labor and environment provisions in the Agreement, the Administration was silent during Senate hearings. In the end, the need for the United States to shore up Middle Eastern partners following the events of 9/11 helped ensure the Agreement's passage, labor and environment provisions included.

The Bush Administration negotiated many bilateral FTAs during its 8 years in office. As the Bush Administration negotiated these agreements, they faced a decision regarding the labor and environmental protections introduced in the USJFTA. They could follow the example of the USJFTA and include enforceable provisions in the main text of the agreement. They could omit them entirely, or they could take a riff on the NAFTA model and negotiate "side agreements" alongside the Free Trade Agreement, with or without any specific degree of enforceability. In the end, the Bush Administration included the labor and environmental protections, using language

that is virtually identical to that used in the USJFTA. In fact, the last FTA ratified during the Bush Administration, United States-Peru Free Trade Agreement, actually contains stronger environmental protection language, including a list of multilateral treaties that each party must follow, in addition to the earlier promises to follow their own laws and procedures. It could be argued that this merely makes a stronger parallel to the labor protections, which includes language to follow and enforce ILO standards as well as local labor laws; however, environmental treaties often contain more specific language and stringent requirements than the ILO Declaration mentioned in the labor sections.

Labor and environmental protections were included in later free trade agreements as well. Three free trade agreements were ratified during Obama's time in office, though negotiations for all three were substantially completed during the Bush Administration. These agreements also include the labor and environmental provisions, although there is additional variation on some of the specifics. Table 1 lists the free trade agreements that the United States ratified since the USJFTA. Each includes labor and environmental protections, and variations from the language introduced in the "Jordan standard" are noted. The Obama Administration did hold negotiations on a number of FTAs, most notably the Trans-Pacific Partnership, which has not been ratified, but whose published text does include similar enforceable labor and environmental provisions to other US-negotiated FTAs since Jordan.

Table 1: US Free Trade Agreements After USJFTA

Partner	Year	Partner Income Level ¹	Labor Provisions ²	Environmental Provisions ²
Australia	2004	High	Yes	Yes
Chile	2004	Upper-middle	Yes	Yes
Singapore	2004	High	Yes	Yes
Bahrain	2006	High	Yes	Yes
Morocco	2006	Lower-middle	Yes	Yes
Oman	2006	Upper-middle	Yes	Yes
Peru ³	2007	Lower-middle	Yes	Yes ⁴
DR-CAFTA	2005		Yes	Yes
• Dominican Republic		Lower-middle		
• Costa Rica		Upper-middle		
• El Salvador		Lower-middle		
• Guatemala		Lower-middle		
• Honduras		Lower-middle		
• Nicaragua		Low		
Panama ³	2012	Upper-middle	Yes ⁵	Yes ^{4,6}
Colombia ³	2012	Upper-middle	Yes ⁵	Yes ⁴
South Korea	2012	High	Yes ^{5,7}	Yes ^{4,8}
<i>Trans-Pacific Partnership (12 nations)⁹</i>	N/A	<i>Various</i>	Yes	Yes

Sources: Income Level: World Bank Country and Lending Groups, 2017, Provisions: US Trade Representative

¹ Partner income level from World Bank Country and Income Groups. Data used at year of treaty ratification. Measured in gross national income per capita in 2015 dollars, breakpoints are: Low-income: \$1,025 or less; Lower-middle-income: \$1,026-\$4,036; Upper-middle-income: \$4,036 and \$12,475; High-income: \$12,476 or greater.

² Unless otherwise noted: Labor provisions include “strive to ensure” standards of ILO Declaration (1998), and “shall not fail to enforce” local laws. Environmental provisions include “shall ensure that its laws provide for high levels of environmental protection and shall strive to continue to improve those laws,” and “shall not fail to effectively enforce its environmental laws, through a sustained or recurring course of action or inaction.”

³ Labeled as Trade Promotion Agreement instead of FTA

⁴ Includes a list of “covered [multilateral] agreements” that a party must implement by adopting, maintaining and implementing laws and regulations.

⁵ Enumerates sections of ILO Declaration that each party “shall adopt and maintain in its statutes and regulations.”

⁶ Amended in 2015 to establish an independent secretariat for environmental enforcement measures.

⁷ Establishes a Labor Cooperation Mechanism separately and includes published confirmation letters for the public from each.

⁸ Includes clarification letter that before seeking dispute resolution, country must determine whether it has laws that are “substantially in scope” with the other nation on the subject of the dispute.

⁹ This agreement has not been ratified. The TPP includes labor and environmental provisions with similar enforceability to the USJFTA, though it also provides for additional cooperation and coordination mechanisms.

Conclusion

The first chapter argued that Clinton entered office at crossroads in American foreign policy with the end of the Cold War. This chapter argued that the Clinton Administration entered office at a crossroads for American trade policy. Clinton's vision of "Enlargement" merged trade and foreign policy, seeking to expand American trade and create new market-based economies in a hope that this would encourage increased democratization. After the end of the Second World War, the United States was an active leader in the process of creating a new international trade regime. The goal was to create a system that would avoid the pitfalls and retrenchment of the interwar years, binding states together through trade, creating a stable world economy and thereby support a peaceful world, following the Liberal Institutionalist school of thought.

Multiple rounds of the General Agreement on Tariffs and Trade (GATT) negotiations substantially lowered the tariffs in major industrialized nations. Over time, the GATT process expanded – including more countries, more categories of trade, and non-tariff barriers to trade. These factors combined to increase the complexity of negotiations and thereby slowed progress on GATT negotiations. During the 1970s, economic malaise in much of the world further slowed the negotiations' pace, and by the 1980s there was a sense that negotiations were stalled and the credibility of the GATT framework to further lower trade barriers was questioned.

As a result, the Reagan Administration began negotiating bilateral free trade agreements. These agreements provided an "insurance policy" (Baucus 1989) in case GATT negotiations remained stalled, they may have also been used as a way of applying pressure to keep nations at the negotiating table for GATT. At first, these were presented as "one-offs:" The first was with Israel, viewed as a key US ally in the Middle East. The second was with Canada, and negotiations began

at the request of the Canadian government. This was justified because of the importance of trade between the two countries, particularly for the Canadian economy, and because the United States and Canada had existing trade pacts for specific industrial sectors, such as the automotive industry. In both cases, interestingly, the Agreements had appeal on both Liberal and Realist grounds: They created institutions that bound states together through trade, which Liberals believe decreases the chance of conflict, and they increased the relative power of allies (particularly with Israel), which appeals to Realists. In addition, negotiating bilateral FTAs has appeal to Realists because they increase the relative strength of the American negotiating position on multilateral deals by demonstrating that the United States has alternate means for achieving its trade goals outside of the multilateral framework.

The Bush Administration negotiated the North America Free Trade Agreement (NAFTA), which included Canada and added Mexico. NAFTA negotiations were substantially completed by the time of the 1992 presidential election in the United States. NAFTA was notable in that it included a country that had a substantially lower level of industrialization and wages than the United States, and the potential impact of the agreement on American jobs and workers became an issue in the campaign. This left candidate (and later, President) Clinton with a choice: Oppose NAFTA, a policy which would have some benefits, particularly with the Democratic base, support NAFTA, or offer qualified or conditional support, helping cement the “New Democrat” label that the Clinton campaign had cultivated. In the end, Clinton took this third option: He supported NAFTA, but argued that he’d only sign the enabling legislation into law if protections were added for labor and the environment.

This created the framework that Clinton would use in trade policy throughout his time in office: Support free trade, but soften some of the potential negative impacts by including labor and environmental protections. The one free trade agreement that was negotiated and finalized during Clinton's time in office was the United States-Jordan Free Trade Agreement. It included labor and environmental provisions in the main body of the text, protections which were "enforceable" – that is, essentially, where a failure to comply could have negative financial consequences. Although the actual level of protections afforded by these provisions has been debated, their inclusion did constitute the bulk of the controversy during hearings over the Agreement in Congress.

In the end, the Agreement was ratified, similar enforceable labor and environmental protections were included in FTAs ratified during both the George W. Bush and Obama Administrations. This constitutes a legacy of Clinton's Enlargement vision for foreign and trade policy, using trade to open up new opportunities for American goods while at the same time expanding the number of market-based economies. To date, the willingness of increasing numbers of nations to join both the GATT (and later, WTO) framework, and to negotiate bilateral free trade deals offers evidence that the Liberal Institutional framework provides useful policy prescriptions. The lack of conflict between nations in the GATT framework, and the fact that free trade deals have persisted (and no nation has left a bilateral free trade deal with the US) offer evidence that Liberalism may more accurately predict the actions of nations the post-war period than Realism, which would predict temporary, shifting alliances as nations seek to maximize their relative power within the system. The hope of the Liberalism-inspired framework of the USJFTA was that increased trade would support employment, raise living standards, and lead to the development

of a broad middle class that would demand an increasing voice in their government and thereby support democratization. The USJFTA was the first agreement ratified with these protections baked into the agreement. The economic results of the Agreement – in particular, whether the USJFTA successfully increased trade, employment, and supported the growth of wages and a middle class – are evaluated in the next chapter.

Chapter 3: Economic Effects of the United States-Jordan Free Trade Agreement

Introduction

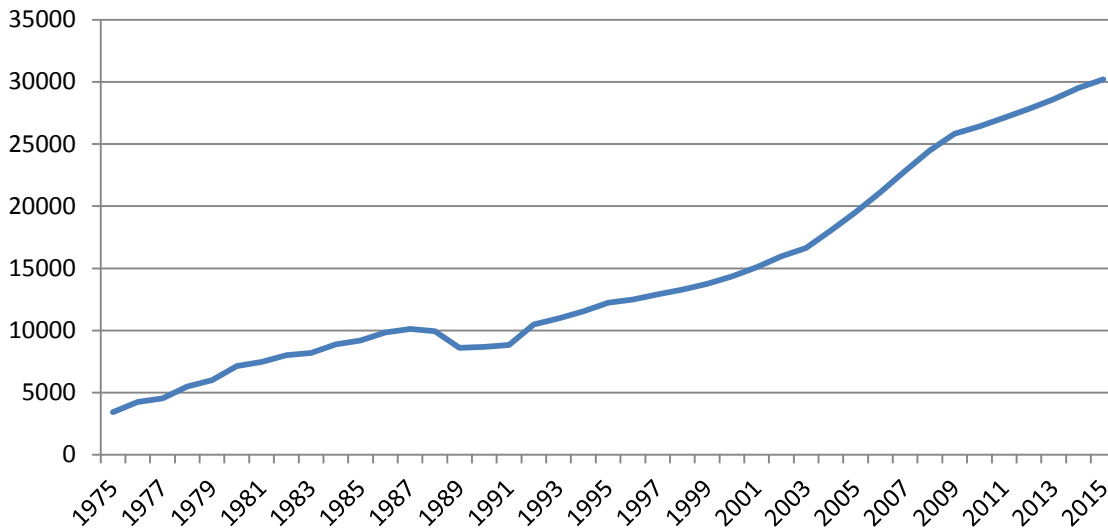
Previous chapters have discussed the United States-Jordan Free Trade Agreement in the context of broader American foreign policy both regionally and globally (Chapter 1), and within the context of shifting American trade policy, focusing on both international and domestic considerations (Chapter 2). Although FTAs are instruments of foreign policy, they are also designed to be instruments of economic change. A key premise of the USJFTA was that the agreement would improve living standards for the average Jordanian, and provide an incentive for further normalization of relations with Israel. This chapter will evaluate the economic effects of the US Jordan Free Trade Agreement. The chapter will first provide a general overview of the Jordanian and American economies. It will then examine the projected economic impact of the agreements that was offered before the agreement took effect. The chapter will then evaluate the actual effects of the agreement, first at a macroeconomic level and then in terms of specific sectors of the economy. The focus will be on those sectors that have been most profoundly affected by the Agreement, particularly the garment industry, where many of the Agreement's effects have manifest themselves. Finally, the chapter will discuss the human effects of the Agreement by looking at labor issues in the garment industry. Although effects on both the American and Jordanian economies will be discussed, this chapter will focus more extensively on the effects in Jordan, where it will be demonstrated that the increased bilateral trade has had a much more profound impact on the economy.

Jordan: Economic Overview

Jordan is categorized as an upper-middle income economy, putting it in the same general grouping as China, Russia or Mexico (World Bank, 2017). Jordan's economic growth has been hampered by a lack of natural resources including water and hydrocarbons (CIA World Factbook, 1999). The country's economic growth is highly dependent upon its neighbors. As oil prices spiked in the 1970s and through the early 1980s, Jordan benefited from significantly increased aid from oil-rich Arab states, and annual economic growth averaged in the double digits (see Figure 1 for Jordanian GDP). Following the stabilization of oil prices, aid and remittances from Jordanians living in other countries slowed, and Jordan became dependent upon foreign borrowing to import goods such as oil, food and capital goods (ibid). Economic growth has been hampered by regional instability, including the 1990-1991 Persian Gulf crisis, the 2003 American-led invasion of Iraq, and the ongoing civil war in Syria and instability in Iraq, both of which share land borders with Jordan (EIU Jordan Fact Sheet, 2017). In recent years, real GDP growth has been relatively low – at an average of 2.6% from the period of 2012 through 2016 (ibid).

The country has made periodic efforts to liberalize its economy starting in the 1980s (CIA World Factbook, 1999) and accelerating this century (EIU Jordan Fact Sheet, 2017), though significant structural changes have been slowed because of national and regional political and social unrest. Economic growth accelerated in the mid-2000s, as the US-Jordan Free Trade Agreement took effect and as the country benefited from higher aid during a time of increased oil prices. The country's dependence on food and energy imports has meant that the country has a significant structural trade deficit, totaling 9.1% of GDP in 2015 (ibid).

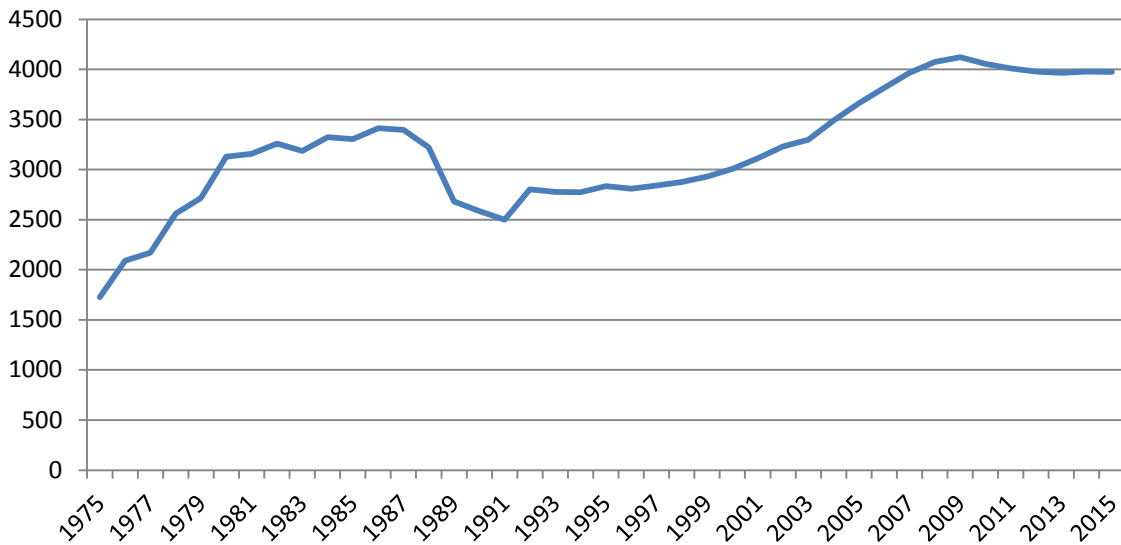
Figure 1: Jordan GDP, 1975-2016, millions of constant 2010 USD



Source: World Bank

Jordan's GDP has grown significantly, but the country has a young population that has also grown significantly during the same period, greatly affecting the ability of the country to increase per capita GDP. Examining per capita GDP offers a better insight into the recent economic history of Jordan. This indicator shows how Jordan was better off in the 1970s and early 80s as the country benefited from regional oil wealth in the form of increased aid and remittances, before becoming significantly poorer as oil prices decreased. Growth rebounded in the mid-1990s and accelerated in the mid-2000s as regional stability increased and the USJFTA took effect, before stalling after the 2007-2009 global economic crisis. The mid-2000s were also a time of high oil prices. In terms of constant 2010 US dollars, per capita GDP approached \$3500 in 1988 before receding, and did not approach that figure again until 2004 (see Figure 2).

Figure 2: Jordan per capita GDP, 1975-2016, constant 2010 USD



Source: World Bank

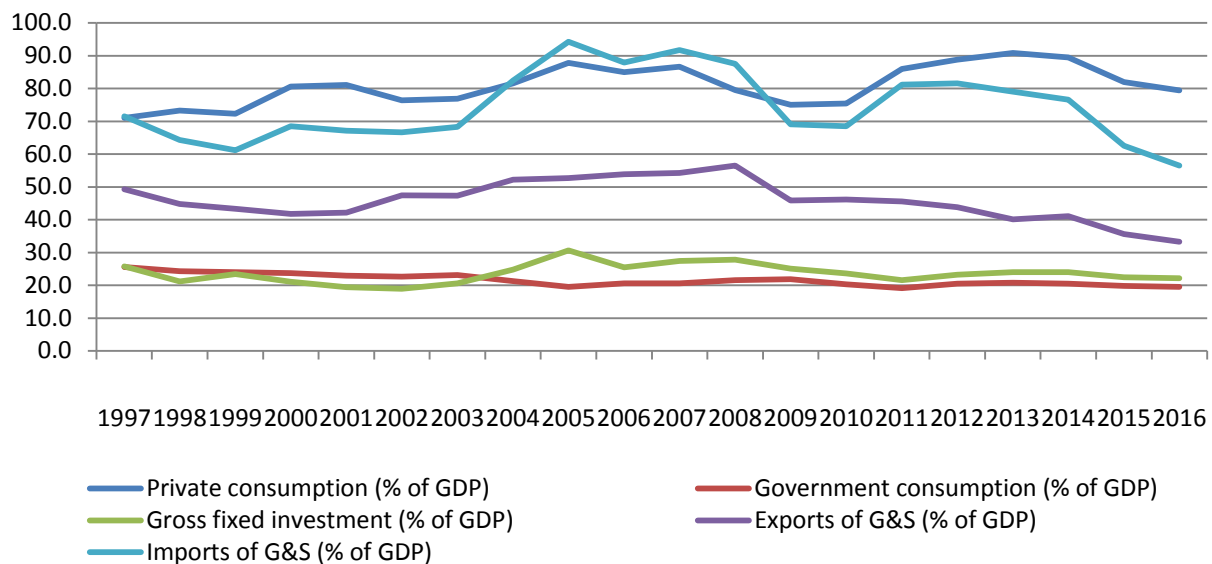
Examining the composition of Jordan's GDP shows the fragility of the Jordanian economy, particularly in terms of its reliance on imported goods. From 1997 through 2016, imports have constantly been above 60% of the Jordanian GDP (imports dipped below this level in 2016, however, it is unclear whether this is due partly to the challenges of importing goods with so much turmoil in bordering nations including Syria and Iraq). This leaves the country exposed to fluctuations in global prices and foreign currency markets, and heavily dependent upon exports, foreign aid, and borrowing to support the country's economy.

Exports, meanwhile, grew sharply after the introduction of the US Jordan Free Trade Agreement, as discussed later in this chapter, from just over 40% of Jordan's GDP before peaking at 56.5% in 2008, just as a recession was taking hold in many of Jordan's primary export partners. Exports declined sharply from a value of \$9.19 billion in 2008 to \$6.98 billion in 2009 (BACI International Trade Database). Although exports rebounded in total dollar amounts, reaching \$8.12 billion in 2011 and \$9.84 billion in 2011 (and have continued to grow in total dollar amounts since) (ibid),

personal consumption grew significantly faster than exports during this time period as Jordan welcomed significant numbers of refugees fleeing Syria, and to a lesser extent, instability in Iraq and increased tension in the Palestinian territories, into its borders.

Throughout this time period, government expenditure as a percent of GDP has remained relatively stable, slowly decreasing over time, partly as the government receives less aid as a percentage of GDP from other Arab states. Gross fixed investment, a leading indicator of future economic growth, has remained mostly stable in the 20-25% range of GDP during the time period, though it did have a short spike in the period from 2004 through 2008, peaking at 30.6% of GDP in 2005 as the US Jordan Free Trade Agreement took hold, amongst other changes in the economy (Economist Intelligence Unit).

Figure 3: Components of Jordanian GDP, 1997-2016

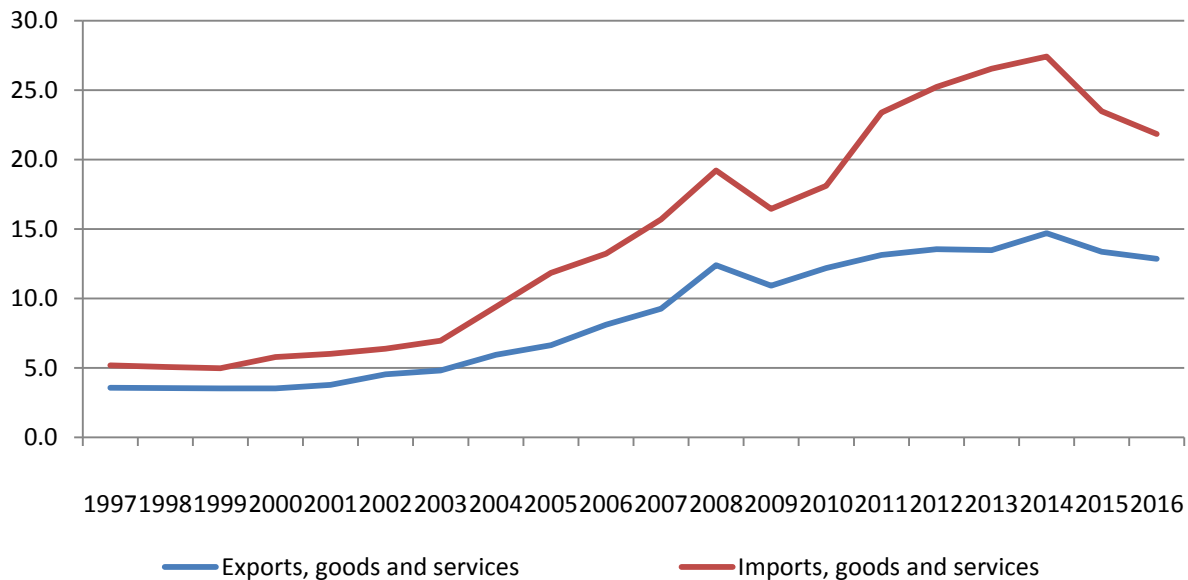


Source: Economist Intelligence Unit, 2017

Free trade agreements most directly affect the rules regarding exports and imports. Jordan’s reliance on imports to meet food and energy needs meant that the country has long faced a

structural trade deficit (CIA World Factbook, 1999), and there was hope that the access provided to the large US market as part of the USJFTA would reduce this deficit by enhancing Jordan's ability to export. Figure 4 shows Jordanian imports and exports over the last two decades. Although Jordanian exports grew dramatically in the early years of the USJFTA, growth in imports has continued to outpace growth in exports. In some ways, this is understandable, as the country's population has grown, and given its reliance on imports for food, industrial machinery, and energy, imports are necessary to support a growing economy; however, the growing gap between exports and imports shows that the agreement has not significantly changed the structural trade deficit of the Jordanian economy. (It should be noted that the figures below are not adjusted for inflation or for fluctuations of the value of the Jordanian dinar vs. the USD.)

Figure 4: Jordanian exports and imports, billions of USD, 1997-2016



Source: Economist Intelligence Unit, 2017

Jordan's export composition has had some significant shifts over the past two decades as the USJFTA has taken effect.¹⁰ Throughout that period, Jordan's largest export sector has been in chemical products, primarily potash and other simple chemical fertilizers. It also exports a significant quantity of mineral products, primarily calcium phosphates. A fair share of its exports are also in metal products used in construction, primarily wiring and tubing, though it also exports some lower-value automobile parts. Although the total value of these exports have grown over the the past two decades, the overall composition of Jordan's exports has remained relatively simliar, except for its growth in textiles. It is evident from the date, and illustrated in this chapter, that this growth in textiles is a direct result of the USJFTA. Jordan exports textiles almost exclusively to the United States. Figure 5 shows Jordan's exports by sector from 1997-2015.¹¹

¹⁰ The international Harmonized System for tariffs makes it possible to examine imports and exports between countries in a standardized manner. This paper uses the 1992 (HS92) edition of the harmonized tariff section as it was the most widely implemented from the start of this data series, though shifts in definitions between the various schema would not greatly affect any of the results. The United States International Trade Commission (USITC) has copies of each year's definitions. (USITC, 2017). The BACI International Trade database makes it possible to apply former Harmonized Systems (HS) classifications to newer data.

¹¹ Exports are combined by HS chapter into the categories shown in Figure 5 in the following manner:

Fabrics, textiles and footwear: Chapters 50-67

Animal and vegetable products: Chapters 1-15

Foodstuffs: Chapters 16-24

Mineral products: Chapters 25-27

Chemical products: Chapters 28-38.

Plastics, skins, wood and paper: Chapters 40-49

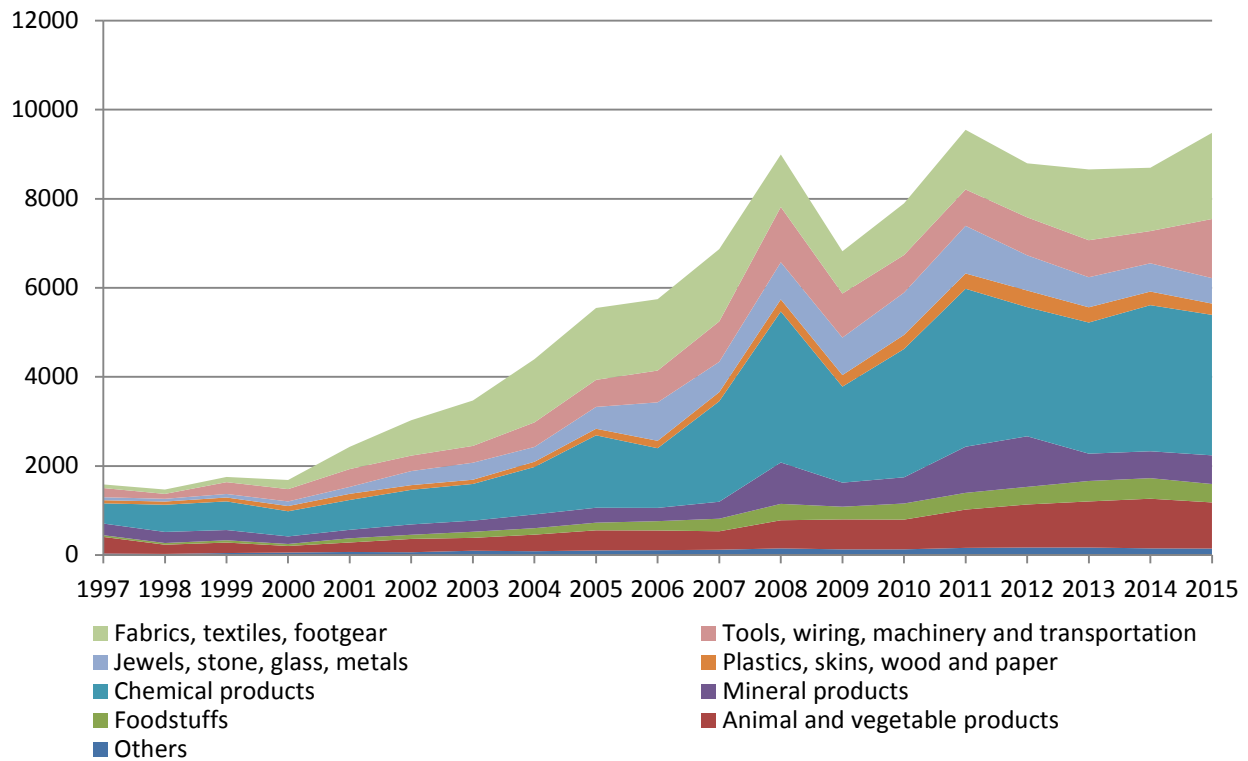
Jewels, stone, glass, metals: 68-81

Tools, wiring, machinery and transportation: 82-89

Others: 90-99

Subsequent figures on Jordanian textiles are limited to chapters 60-63, which focus on fabrics and finished textile goods, but which exclude fiber products, industrial textiles, ropes, filaments, and footwear, as these are not the primary focus of Jordanian exports and since chapters 60-63 comprise of what is most often thought of as "garment and textile industry."

Figure 5: Jordanian exports by sector, millions of USD, 1997-2015

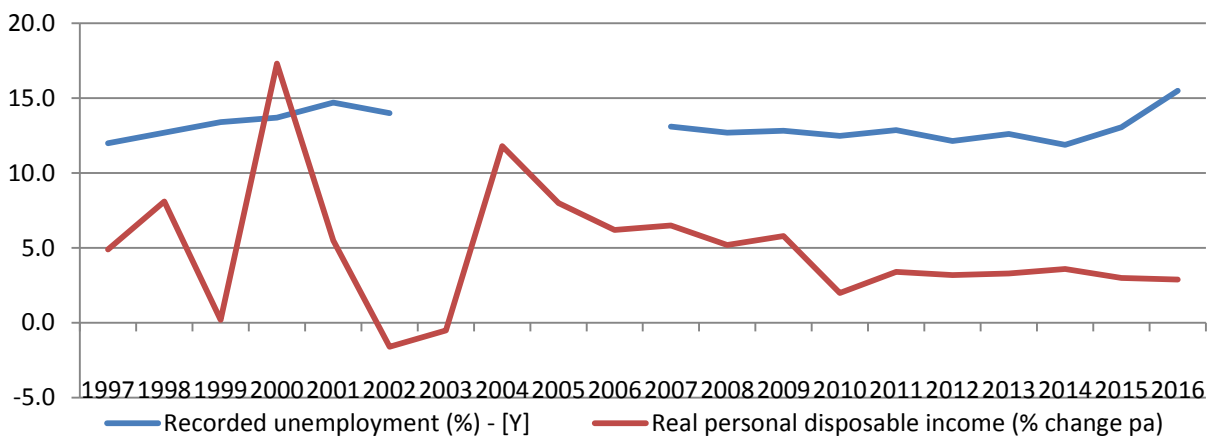


Source: BACI International Trade Database, 2017

As stated in earlier chapters, one of the arguments for the agreement was that it would decrease Jordan’s chronically high unemployment rate, spur wage growth, and with it, lead to the creation of a large middle class. The middle class is viewed as important for stability and democratization, as they have an investment in the country – that is, something to lose economically – making them less likely to support revolutions or extremism. Over time, the belief is that this class would organize – through professional associations, trade groups and other community and voluntary organizations – and these developments would foster democratic change, political moderation and regional stability. A key premise of the Agreement, however, was that it would increase the Jordanian standard of living.

Figure 6 shows the unemployment rate and percent change in real personal disposable income (defined as total income after taxes and net transfers, meaning it does capture any benefits from international aid) in Jordan from the years before the creation of the Agreement until 2016 (unemployment data is not available for several years around the time of the US-led invasion of Iraq, which is contemporaneous to the early stages of the USJFTA’s implementation). Real personal income shows significant variation throughout the time period, rapidly increasing in some years (such as 2000 and 2004) while decreasing in others, before stabilizing in the years after the global financial crisis, at around 3% growth. This figure is decent, if somewhat less than what might happen during a time of robust economic growth in a lower middle income country. The unemployment rate was relatively stable throughout the entire time period for the years when it is available, remaining above 12% throughout the time period and spiking above 14% only in 2001-2004, and again in 2016. It should be noted, however, that unofficial estimates of unemployment in Jordan are much higher than official government statistics (Khasawneh and al Khouri, 2002), though there have been no published attempts to quantify the size of this discrepancy.

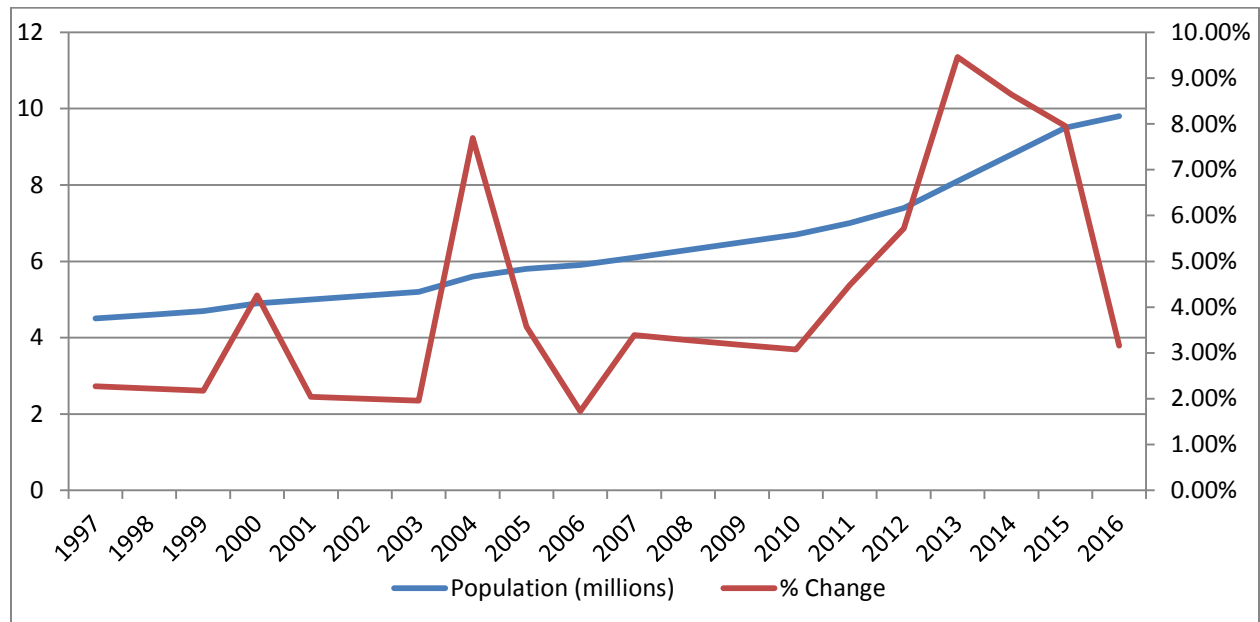
Figure 6: Personal consumption and unemployment in Jordan, 1997-2016



Source: Economist Intelligence Unit, 2017

Taken together, these figures might suggest that the USJFTA had little to no effect on Jordan's economy, however, as stated earlier, the country had been greatly affected by larger events within the region, including the invasion and subsequent overthrow of the Ba'athist regime in Iraq, the Arab Spring, and the civil war in Syria. This was also a time when the global economy was greatly affected by the 2007-2009 financial crisis and its aftermath. The civil war in Syria particularly had an impact on Jordan as the country began to receive a large number of refugees, swelling the country's population significantly. This trend augmented the large natural growth of the Jordanian population stemming in part from its youthful demographic profile. Figure 7 shows Jordan's total population from 1997 through 2016 alongside the annual percent change in population over that time period.

Figure 7: Jordanian population (left axis) and % change YoY (right axis), 1997-2016



Source: Economist Intelligence Unit, 2017

Examining Jordan's population growth shows the nation's unemployment rate in a different light. Jordan's 3.6% increase in the unemployment rate from 2014-2016, for example, occurred at a time when the country's population increased by over one million inhabitants, nearly averaging a double-digit annual population increase. In light of Jordan's population growth, the country's ability to maintain a relatively stable unemployment rate is remarkable, and paints a favorable contrast of the Jordanian economy compared to others in the Arab world, where young, rapidly growing populations have led to significant increases in the unemployment rate. In diagnosing causes of the Arab Spring, and the associated (and often subsequent) violence and unrest, "too many young idle hands" is often cited as a significant, if not the primary, contributing factor (e.g. *The Economist*, 2013).

United States: Economic Overview

The United States is a high-income economy (World Bank 2017) with a broad base of service and manufacturing. The United States has the world's largest GDP, at \$18.6 trillion in 2016, or \$57,321 per capita, among the highest in the world for industrialized nations. An overheated housing market combined with increased financialization and decreased oversight of that sector of the economy triggered a domestic financial crisis and a global recession from 2007-2009. Economic recovery and a slow expansion continued for eight years since that time period, but growth rates remain low and recovery in the workforce, particularly wages and the employment-to-population ratio remain low compared to other post-war recoveries. Real GDP growth in the U.S. averaged 1.6% in the period from 2012-2016 (EIU United States Fact Sheet, 2017).

The United States has had a persistent trade deficit for decades, due in part to the United States dollar's position as the global reserve currency and the perceived safety of American

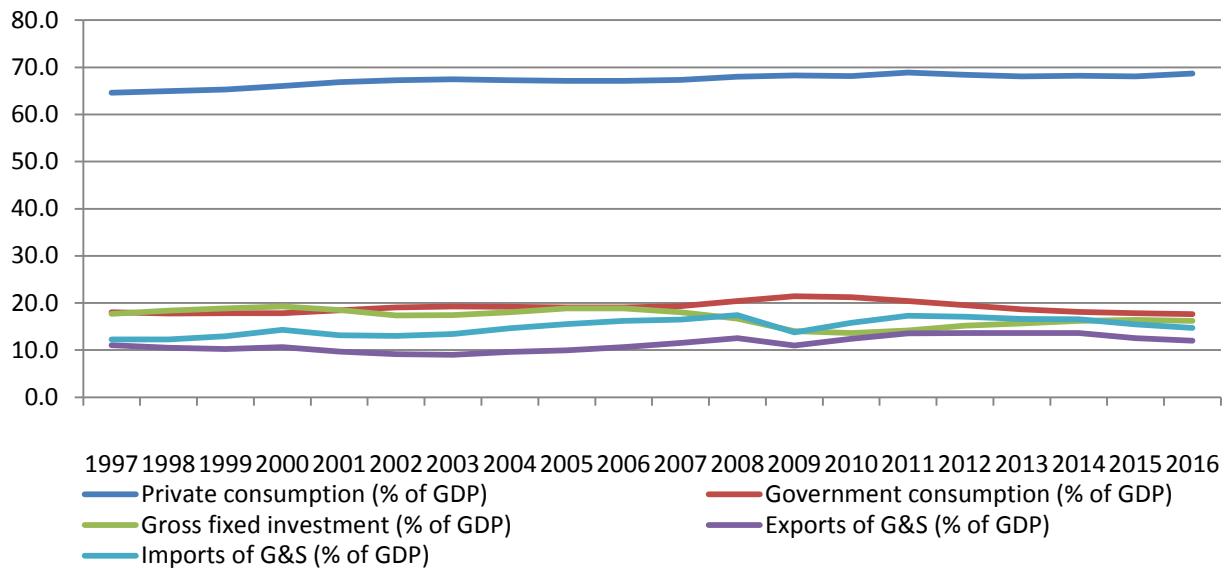
government bonds. The total current account deficit of the United States reached a total to 2.6% of GDP in 2015 (ibid).

Figure 8 shows the components of the United States' GDP over the past two decades. As might be expected for a developed country with a highly diverse economic base, the components remained relatively stable throughout the time period. Private consumption remains the driver of the American economy, and has slowly risen over time from 64.6% of GDP in 1997 to 68.7% in 2016. Government consumption has also remained relatively stable, between 17.7% of GDP in 2016 (and 17.8% in 2015 and 2000), peaking at 21.4% in 2009 as stimulus spending peaked following the recession that began in 2007. Investment peaked in 2000, as the economy grew rapidly as a result of the so called "dot-com" boom that saw significant productivity growth at a time when the Baby Boomer generation born after World War II hit their prime earning years. Investment from all sources remained at around 18% of the economy until the recession, when it fell to 14% in 2009 and 13.6% in 2010 before rising again to around 16% of the economy in recent years.

Exports have hovered around 10-12% of the US economy, briefly going as low as 9% in 2006 and increasing to as much as 13.7% of the economy in 2014. Imports have similarly hovered in a narrow range, between 12.3% of American GDP in 1997 and 1998 to as high as 17.3% of GDP in 2011. This increase can be explained largely due to high oil prices at a time when the US economy was returning to growth following the recession. Imports of petroleum products accounted for a total of 21% of all the value of total US imports in 2011, compared to 7.7% in 2015 (BACI International Trade Database). Since that time period, higher US production of

petroleum products and lower global prices for oil has combined to decrease the total cost of imports as a percentage of the American GDP. This has had the effect of reducing the American trade deficit, however, that decrease has been partly offset by an increase in imports in other sectors.

Figure 8: Components of United States GDP, 1997-2016

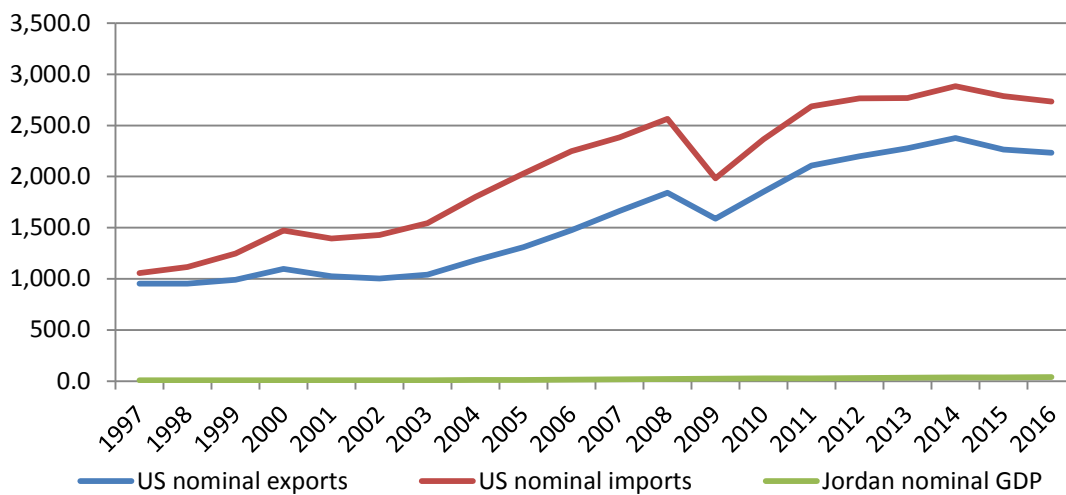


Source: Economist Intelligence Unit, 2017

The United States, with a population of 324 million, is a nation on an entirely different scale than Jordan, whose population remains under 10 million (Economist Intelligence Unit). Adding to that, the United States is a significantly wealthier nation than Jordan. The sheer scale differences between the economies of the two countries means that the economic impact of the agreement on the United States is negligible, although later in this chapter the effects on specific sectors of the economies of both nations will be considered. To illustrate the size difference, Figure 9 shows American imports and exports, which together remained less than one-third of the US economy during this period, compared to the entire GDP of Jordan. Throughout this time

period, American imports and exports ranged from 277 times Jordan’s total GDP in 1997 (with American exports totaling \$954 billion and imports totaling \$1,056 billion compared to Jordan’s \$7.2 billion GDP) to 128 times in 2016 (as the US economy exported \$2.2 trillion of goods and services, imported \$2.7 trillion, and Jordan’s GDP was equal to \$38.7 billion) (Economist Intelligence Unit).

Figure 9: US imports and exports vs. Jordan GDP, billions of USD, 1997-2016



Source: Economist Intelligence Unit, 2017

Estimated Economic Effects of the US Jordan Free Trade Agreement

Given the difference in scales between the American and Jordanian economies, most estimates of the Agreement’s effects focused on achieving policy goals in the United States (e.g., including provisions on the environment or intellectual property that would serve as a model for future agreements, demonstrating continued American support for free trade), and the economic, social and political effects in Jordan. Even the likely effects on Jordan, however, were barely studied in the time leading up to ratification of the Agreement. Formal estimates of any kind

were only produced by researchers working under government or government-supported institutions in the US and Jordan.

The sole published study originating from Jordan around the time of the Agreement's ratification predicted impacts on Jordanian manufacturing, including the possibility of diversification into high tech manufacturing, a relatively new industry for Jordan and one that provides the possibility of higher profit margins than most of Jordan's exports (Khasawneh and al Khouri, 2002). The report also estimated— but did not quantify - an increase in foreign direct investment in Jordan as a result of the agreement. Furthermore, the report also predicted that the preexisting Qualifying Industrial Zones (QIZ) which began operation in 1998, would continue under the Agreement, due to slightly different requirements of national origin and value between the QIZ (which also have Israeli and/or Palestinian inputs) and the USJFTA.

Two studies on the potential effects of the Agreement were undertaken by researchers supported by the United States government under the auspices of the US International Trade Commission (USITC). The first was a formal estimate published at the request of the United States Trade Representative. The second study is a working paper by an individual author comparing the US Jordan Free Trade Agreement's impacts on Jordan to NAFTA's effects on Mexico, published shortly after the agreement was ratified.

US International Trade Commission's formal study states that the USJFTA is "not expected to have a measurable impact" on US export sectors (US International Trade commission, 2000, viii) and that "an FTA with Jordan is not expected to have a measurable impact on US imports," on all except one of the sectors which the Commission evaluated due to the size differences between

the two countries. The USITC's study selected sectors based upon the two countries existing trade with each other and with other nations (ibid). The study evaluates impact on trade in these selected sectors, illustrating why the USJFTA would have a limited impact, even when allowing for the size differences between the two nations.

Jordan's major exports would either have a difficulty reaching the US market effectively (e.g. citrus fruits and vegetables which would have to travel past potential markets in the Middle East and Europe to reach US consumers (ibid, 5-4, 5-8), or are in industries where the tariffs are low and other potential trade barriers are high. For example, Jordan is a significant exporter of fertilizers, however, transportation costs are high for such products, the United States is already a significant exporter, and tariffs on fertilizer imports from Jordan were already free of duty before the agreement was signed (ibid, 5-3). Similarly, Jordan's second largest export to the US prior to the USJFTA was jewelry, but jewelry imports to the US from Jordan were already 0% under the Generalized System of Preferences (GSP) program designed to stimulate economic growth in poorer countries (ibid, 5-4).

The study also found that Agreement was also unlikely to have a significant impact on US exports to Jordan for a variety of reasons. For example, the United States is a major global wheat exporter, and Jordan required grain imports to feed its population; the US was Jordan's primary source for wheat in 1999. However, as Jordan did not tax wheat imports, the USJFTA would have no impact on the terms of trade between the two countries (ibid, 5-9). In other sectors, the impacts would have been negligible as a percent of total US exports, the reduction in tariffs was unlikely to encourage domestically-inclined American industries to begin exporting (ibid). Given

the size difference between the two economies, even drastic increases in American exports to Jordan are lost in the overall size of American industries. The report estimated that electric machinery exports to Jordan might double as a result of the Agreement, to a total value of \$43 million, compared to total US exports of \$94.2 *billion* in the sector.

The second study (Chomo 2002) compared the effects of the two “North-South” FTAs with developing countries that the United States had signed to that point, NAFTA (with Mexico) and the USJFTA. It predicts that the Jordanian economy was poised to gain relatively more than the US economy as a result of the free trade agreement, largely because Jordan’s relatively high tariffs created a distortionary effect on the Jordanian economy (Chomo, 3). Using the Heckscher-Ohlin model for international trade, her study suggests that Jordanian cereal production would likely decrease and imports from the United States increase as a result of the agreement (ibid, 6). The study also finds that light manufactures products, “specifically textiles, apparel, and pharmaceuticals” would increase as “these products are produced with an input mix representing the relatively abundant labor compared with scarce capital in Jordan” (ibid, 7). A significant fraction of that gain would be in apparel, which faced a relatively high tariff rate of between 8-10% in the United States (ibid, 16). Unlike the formal USITC study, Chomo cites Israel’s exports of off-season tomatoes to the United States, using its combination of a warm climate and favorable tariff treatment under the FTA, as evidence that Jordan might use its existing vegetable export sector to begin supplying high-value crops (specifically vegetables and tomatoes) to the US during off-season months (ibid, 9-10).

Chomo demonstrates that the (pre-NAFTA) Mexican and Jordanian economies shared a great number of similarities, despite Mexico's significantly higher per capita GDP. This commonality is used as the basis for predicting the effects of the USJFTA on Jordan. However, the study did note that Jordan faced higher average tariff rate than Mexico before the FTAs were signed, and that welfare gains from FTAs in both cases are difficult to measure due to the lengthy phase-in period of FTAs and diffuse nature of such gains (ibid, 14-15). Mexico also enjoyed several advantages that Jordan did not, such as a shared border, strong transport links, the possibility of manufacturing colocation between Mexico and the United States, and significant inward foreign direct investment (FDI). Chomo argues that "the key for Jordan is to attract investment funds. The Middle East suffers from lower than world-average foreign direct investment" (ibid, 23).

Between these three studies, a few common predictions emerge. First, there was recognition that the low amounts of foreign direct investment into Jordan present a barrier to further economic growth. Second, this led, in turn, to a belief that inward FDI could increase after the ratification of the USJFTA, especially considering the country's economic reforms in the 1990s, which included a bilateral investment treaty with the United States and joining the WTO. This belief, however, was less than certain and remained unquantified in all the published analysis. Third, on more concrete grounds, studies showed that the USJFTA would have a negligible impact, at most, on American production (either for domestic consumption or for exports). Fourth, the impact on Jordan was predicted to be more profound. The basis for this prediction was two-fold. First, the reduction in tariffs was expected to complement the existing QIZ, due to differences in their regulations, particularly with regards to foreign origin. Second, the agreement was predicted to make existing Jordanian industries, particularly textiles, much more

competitive, given the relatively high rate of tariffs before the passage of the Agreement. Finally, two analyses raised the possibility that favorable tariff treatment could open a new export market for Jordanian goods with a relatively high weight-to-value ratio: electronics, particularly digital electronics (Khasawneh and al Khouri, 2002) or high-value agricultural products like flowers or fruit (Chomo).

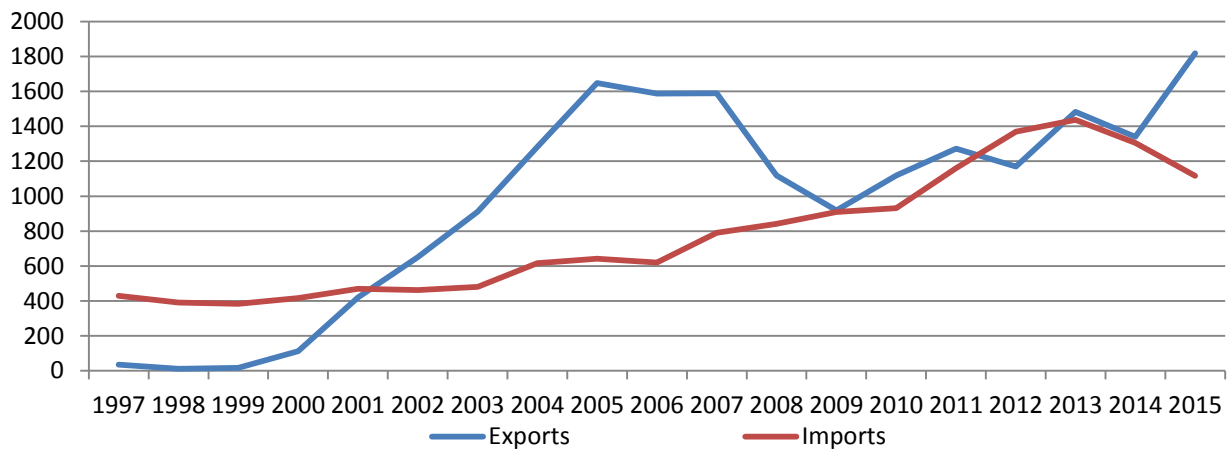
Bilateral Trade Between Jordan and the United States

The USJFTA was ratified by the United States in late 2001 and came into force in stages shortly thereafter. American tariffs on Jordanian goods were eliminated almost immediately, while Jordanian tariffs on American goods were to be eliminated in stages depending on the pre-FTA rate, with several sectors particularly important to government revenues, like alcohol or automobiles, exempted from the agreement entirely (Khasawneh and al Khouri, 2002). Given the miniscule impacts of the Agreement on the American economy, however, means that the effects of the USJFTA can be examined from a 2002 starting date. Some of the effects of the Agreement rapidly took hold, while others had delayed effects of several years, which is understandable as companies built explored new market opportunities, attracted investment, built factories, and began producing goods.

The Agreement had a profound effect on the size and composition of Jordanian trade. Figure 10 shows Jordanian trade with the United States (with Jordan as the country of origin – exports are *to* the United States, and imports are *from* the United States) from 1997 through 2015. Exports to the United States were miniscule until 2000, when products began to flow from Jordanian QIZ to the United States. From that level, they rose quickly, increasing from \$112 million in 2000 to \$420 million a year later (again, this is before the Agreement was ratified, so this figure is a result

of the QIZ program, not the FTA), before more than doubling to \$910 million in 2003 and reaching \$1.6 billion in 2005. After 2005, exports essentially plateaued, before lowering significantly during the 2007 recession. Jordanian exports to the US reached a new peak in 2015, finally eclipsing the pre-recession figure seen in 2005. The country also moved from a net importer from the United States to being a net exporter through most of the time period. The trade surplus with the US was highest during the pre-recession years, before moving to a rough trade balance as Jordanian exports plummeted. Though not definitive, it appears that the recent increase in Jordanian exports may be creating another trade surplus with the United States for some time to come.

Figure 10: Jordan exports to and imports from United States, millions of USD, 1997-2015¹²



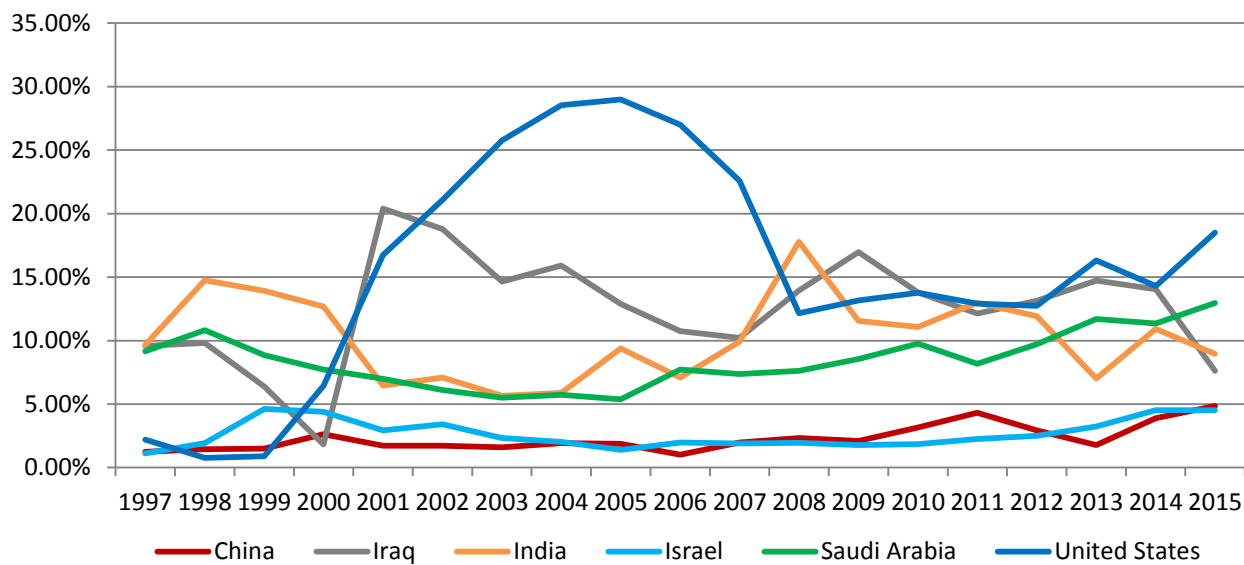
Source: BACI International Trade Database, 2017

Given the surge in Jordanian exports to the United States, it is unsurprising that the country became a much more important trading partner to Jordan during this time period. Figure 11

¹² Note: At the time of writing, bilateral trade data is only available through 2015, not 2016 as with earlier figures in this chapter.

shows the share of exports going to Jordan’s largest export partners from 1997-2015. Exports to the United States accounted for only 2.2% of Jordan’s total exports in 1997 – in fact, placing the United States in 12th place among Jordanian export partners, behind other Middle Eastern nations, but also behind Japan (2.5%) and the Netherlands (3.5%), and scarcely ahead of Italy (2.1%) and Italy (2.0%) (BACI International Trade Database, 2017). By 2001, however, the United States was Jordan’s second-largest export partner, and in the years before the recession, it was Jordan’s largest export market by a significant margin, before shrinking in importance during the recession and its aftermath. Since the USJFTA has been signed, the United States has been Jordan’s largest trading partner by a wide margin, even when including much closer trading partners such as Saudi Arabia, which largely imports pharmaceutical products, agricultural products and some construction equipment (especially wiring and tubing) from Jordan, and India, whose almost exclusive Jordanian import is fertilizers.

Figure 11: Jordanian exports to major export partners, percent of total, 1997-2015



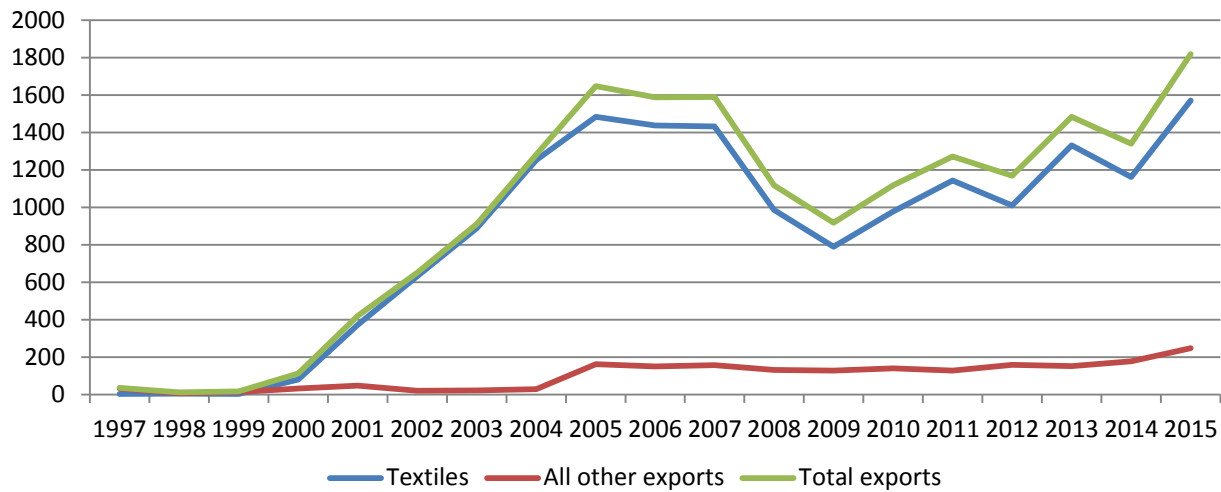
Source: BACI International Trade Database, 2017

The Free Trade Agreement did not simply open a new market for existing Jordanian export industries. Jordan had previously exported some textiles to the United States, valued at just under \$5 million in 1997, before they qualified for favorable tariff treatment by virtue being produced in a qualified industrial zone (QIZ, from 1998 onwards) or under the FTA. Chomo (2002) predicted that this trade could expand because textiles require relatively few capital inputs and relatively high labor inputs; however, the sheer magnitude of this expansion is remarkable.

Textiles comprise the vast majority of the total value of exports to the United States (Figure 12). In fact, the only other export of any significance is jewelry (which began to be exported in quantity in 2005 – visible in the spike of the red line of the figure below). The value of jewelry exports peaked at \$119 million in 2005, and has not reached that level since (BACI International Trade Database). Jordan's exports to the United States are almost entirely in textiles.

Pharmaceuticals, a few high-value edible products, and others are exported in small quantities to the United States, but in a total amount that is smaller than over textiles comprise over 90% of the total value of Jordanian exports to the United States since 2002, the first year after the USJFTA was ratified. It should be noted that despite their importance to Jordanian-US trade, total US textile imports of all kinds were valued at \$118 billion in 2015, of which Jordan's share was only \$1.57 billion, or 1.3% of the total. This confirms the USITC's conclusion that the USJFTA was unlikely to affect US producers or even have a significant impact on other US trading partners. Even as Jordan's textile trade with the US skyrocketed, the net value compared to total imports in that sector remained miniscule.

Figure 12: Jordan exports to the US: textiles vs. all other, millions of USD, 1997-2015



Source: BACI International Trade Database, 2017

Textiles have a series of properties that make them a good market for export: First, they are relatively lightweight for value (one of the reasons that textiles were amongst the first globally traded commodities, as far back as the Silk Road and the European trade for Indian textiles in the early modern era). Second, textile production is relatively capital and skill un-intensive (Chomo, Safa), and the inputs are also light-weight and easy to transport. Jordan's economic profile, with a relatively low capital stock and relatively low wages, was therefore suited to be a textile exporter to the US once the relatively high tariffs on those goods were removed as part of the FTA process (Chomo).

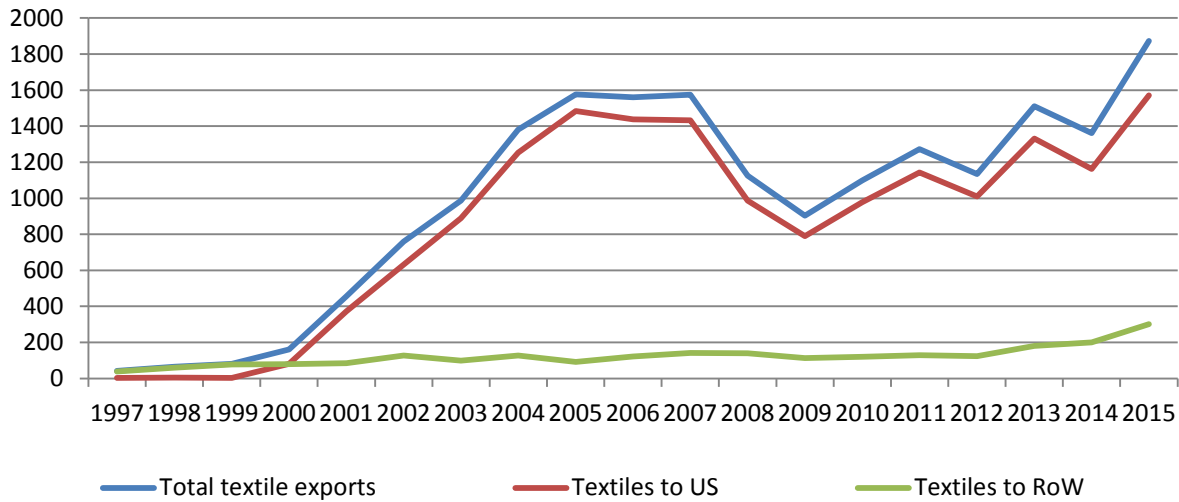
Jordan's textile exports were worth only \$42 million in 1997, but only seven years later, were over \$1.3 billion, and by 2015 were worth over \$1.8 billion. Textile exports to the United States increased over 46,100% from 1997 to 2015, at a time when total American textile imports from all countries roughly doubled, from \$58 billion in 1997 to \$118 billion in 2015 (BACI International Trade Database). This growth, however, was *not* due to superior quality of Jordanian textiles nor

because Jordan developed a comparative advantage of production over other textile exporting nations. If that had been the case, then Jordan would be expected to become a large *global* exporter of textiles, sending goods to many countries, particularly wealthy, textile-importing regions like Europe, Japan or the rest of North America.

This, however, was not the case. Jordan's textile industry is almost entirely dependent upon access to the American market – access which is now tariff-advantaged compared to other major textile exporting countries in South and East Asia. Figure 13 shows Jordan's textile exports to the US versus the rest of the world. As the graph clearly illustrates, Jordan's textile industry lives and dies by access to the US market. Even as American textile imports declined significantly in the recession, creating spare capacity in the industry, Jordanian exports to other countries remained relatively constant.

Overall, this suggests that Jordan enjoys no real advantages to textile production. The country has higher labor costs than nations in South Asia, and its location and transport links are relatively undeveloped, with only a single international seaport (located on the Red Sea), though it does have access by road to Israel and neighboring nations. In other words, the textile industry exists almost solely because of Jordan's custom-advantaged access to the American market: The textile industry was only a small part of Jordan's pre-QIZ and FTA relationship with the United States, and even after the industry developed; it has struggled to find export markets outside of the US.

Figure 13: Jordanian textile exports, US vs. rest of world, millions of USD, 1997-2015



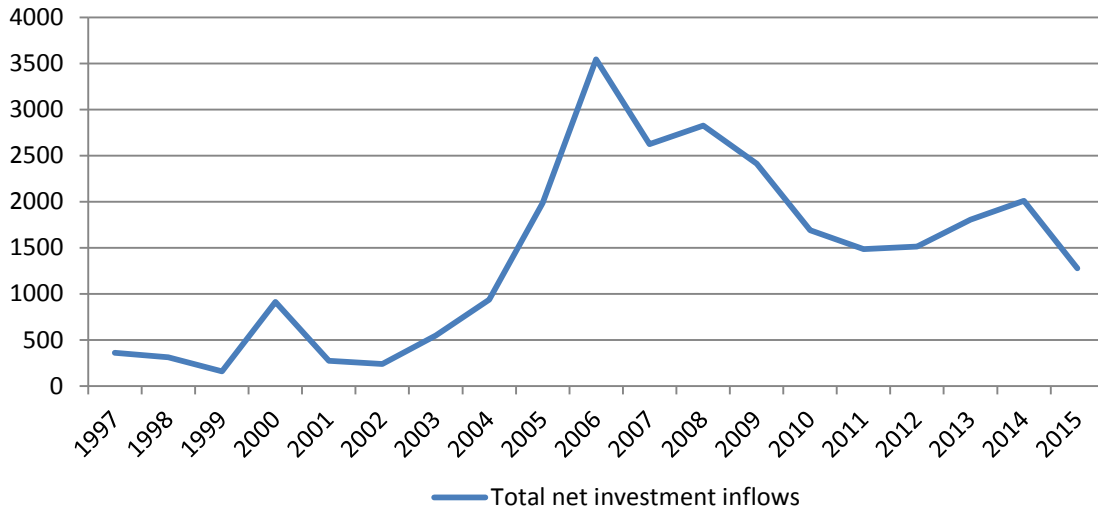
Source: BACI International Trade Database, 2017

Because of the relatively low skill level required of garment workers and the low capital requirements of the textile industry, it is often one of the first industries to develop during industrialization. A frequently-cited plan for industrialization is for a country to begin exporting whatever products it can, at whatever price it can, to earn foreign currency and to encourage foreign direct investment (Chomo; Khasawneh and al Khouri). Over time, this investment increases the capital stock of a country, and when combined with increasingly an educated and skilled workforce, allows the country to begin producing products of increasingly high value, further stimulating increased investment, exports, and thereby supporting a rising standard of living. Both Chomo and Kasawneh and al Khouri cited either a need (Chomo) or a hope (Kasawneh and al Khouri) for increased foreign direct investment as a result of the USJFTA.

Figure 14 shows total net inward foreign direct investment to Jordan from 1997 through 2015. Foreign direct investment into Jordan did spike significantly in the years after the Free Trade Agreement was signed with the United States. Inward FDI spiked significantly in the year that

the agreement was signed, and continued to increase significantly in the years following. Even though the level decreased significantly during and after the recession, the levels of inward FDI remain significantly above the pre-FTA figure.

Figure 14: Total net inward FDI to Jordan, millions of USD, 1997-2015



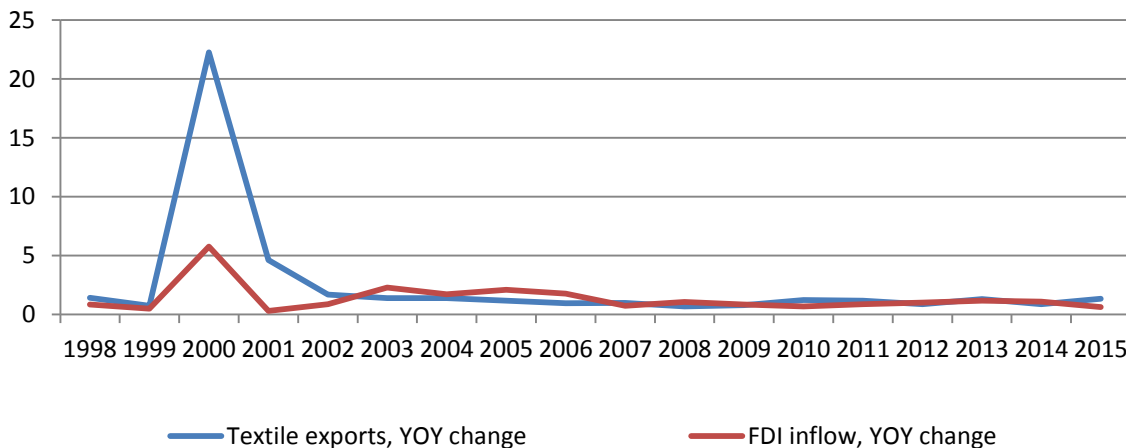
Source: World Bank Development Indicators, 2017

Neither Jordanian government sources nor global economics databases publish source countries of FDI inflows on a regular basis, nor do they break down FDI inflows by sector.¹³ This makes it difficult to determine what industries the investments are targeting. They could, in theory, be used to support industries geared towards the local market, though frequently foreign investors seek to create products for export.

¹³ The United Nation’s UNCTAD FDI/TNC database did report sources of inward FDI for Jordan from some countries from 2001-2012; however, the reporting was done on a seemingly voluntary basis for sources of the investment and they never equaled more than roughly 20% of total FDI flows for any given year, and no nation consistently reported data for every year during the period.

Looking at the year-by-year change of Jordanian exports by sector shows that although most sectors experienced significant growth from 1997-2015, the Jordanian textile industry is the only one that expanded significantly as a share of total exports – from roughly 5% to more than 20% of Jordan’s total exports (BACI International Trade Database). This suggests that inward FDI is a significant driver in the growth of the textile industry. For lack of more definitive data, one possible way to examine the relationship between the growth in foreign direct investment over the previous year and the growth in textile exports over the following year. Figure 15 shows the relationship.

Figure 15: Inward FDI vs. textile exports, YOY change (%), 1998-2015



Source: World Bank Development Indicators, 2017 (FDI inflows), BACI International Trade Database (textile exports)

The data are highly correlated. In years when FDI increased, textile exports similarly spiked the following year. Examining the peak in Figure 15 illustrates this relationship. In 2000, Jordan saw a massive influx of foreign direct investment, rising from \$158 million to over \$913 million. The following year, Jordanian textile exports spiked from \$80 million to \$372 million. In the years before and since, the relationship remains extremely highly correlated (p-value is .86 over the

time series). As the USJFTA was being finalized, inward FDI to Jordan spiked, and shortly after it was ratified, textile exports, either under the Agreement or the QIZ program, also increased rapidly, with the QIZ program acting to “jump-start” investment in textile manufacturing in Jordan in advance of the USJFTA (Williams).

In subsequent years, even though the total levels of foreign investment increased and as Jordan’s textile industry continued to expand (except around the time of the recession), the rate of change slowed dramatically. This suggests that foreign investment in to Jordan has largely supported growth in the textile industry. On one hand, any growth in investment is, almost by definition, beneficial to Jordan, especially considering that the Middle East, in general, has suffered from lower levels of FDI than comparable economies in other regions (Chomo). On the other hand, the fact that investment would appear to be so highly concentrated in the textile industry (again, a “starter” export for industrializing nations) suggests that the influx of investment has not done a great deal to encourage overall development of the Jordanian economy.

Human Effects of Trade

One of the issues facing Jordan has been chronically high unemployment, with official figures in the double digits, and unofficial estimates suggesting the true figure may be much higher (see “Jordan Economic Overview” earlier in this chapter). The textile industry, whatever its downsides may be for economic growth, is, at least, labor intensive, suggesting that it might be beneficial for the unemployment rate in Jordan. The net effect of the explosion in Jordan’s textile industry has, in fact, created a great number of jobs in Jordan; however, these jobs have

not been filled by Jordanians. This trend has created one of the more surprising and (by most analyses) unexpected effects of the USJFTA.

In negotiating the QIZ program, there was an understanding that using foreign workers might reduce labor costs, and as a result, the program limited foreign work forces within the QIZ to 35% of the total labor force (Khasawneh and al Khouri, 2002). The free trade agreement, however, has no such provision, and instead, simply requires both nations to follow their local labor laws (ibid). The result has been that as of 2012, a full 75% Jordan's 55,000 textile workers come from South Asian countries such as Bangladesh or Sri Lanka many of whom have existing apparel industry experience from employment in their home countries (Williams, 2015).

Employing foreign labor has a number of advantages over domestic Jordanian workers. Foreign labor is cheaper. Moreover, turnover amongst Jordanian workers is high, as the 90% female workforce often leaves work once they get married (Williams). In addition to expecting higher wages, Jordanians also expect additional job benefits, such as transportation to and from factory sites (Khasawneh and al Khouri, 2002). For female workers who have children, Jordanian law requires that daycare be provided if there are more than 20 female employees and a total of at least 10 children between them (Obeidat, 2015). In addition to costs and retention, there is the simple problem of recruitment. Out of 19,657 open jobs in Jordan's textile industry between 2011 and 2013, only 4,251 people applied (ibid). This may be due as much to cultural as practical considerations: Families may be reluctant to let young women work far away from the home (ibid), and the work may be viewed as low status (Khasawneh and al Khouri, 2002). This is one reason why the QIZ program, while still existent, has a limited impact of the garment

industry: In 2012, only \$63.1 million out of nearly \$1 billion in textile imports from Jordan came from QIZs (Textile World Asia, 2012).

The garment industry in Jordan has also extracted a heavy toll on workers, particularly in the first decade after the QIZ program began. American NGOs operating in Jordan described a pattern of widespread human rights abuses, ranging from low wages (sometimes below Jordan's minimum wage), long hours (including forced/mandatory overtime), poor working and living conditions in on-site dormitories, to patterns of physical and sexual abuse of female migrant workers who were essentially trapped on factory sites and who had their passports confiscated (Gillespie, 2006). The QIZ program, and later, the FTA, created a large migrant labor force in Jordan that is overwhelmingly female. The use of female migrant labor is significant, because many have argued that it is easier to abuse. The garment industry in particular has been said to seek "the cheapest and most malleable labor: predominantly female, low-skilled, and disempowered" (Ho, Powell and Volpp, 1996:386). A female workforce "can be paid less than men, they were usually docile and less likely to join unions" (Reynolds, 2000:443). Female workers are both easier to abuse and less likely to report abuses (Carling, 2005). Reports of a total of 140 hours of work *per week* (an unbelievable 20 hours a day, 7 days a week) including forced overtime have been filed, and not disputed by official Jordanian government inspectors (Jordan Ministry of Labor 2006).

The limits of the United States Free Trade Agreement's protections on labor protection come into focus in this case. It recognizes that each country has "the right... to establish its own domestic labor standards, and adopt or modify its labor standards and regulations" (United States Jordan Free Trade Agreement – Final Text Article 6), and only asks that each government

will “strive to ensure” that their legal framework is consistent with “internationally recognized labor rights,” which is generally taken to mean ILO treaties. Each country is committed to remaining an ILO member, though the ILO and any specific treaty is not mentioned specifically. Moreover, the treaty is extremely flexible on this matter, noting that both countries must only “strive” to ensure minimum standards and not actually write such standards into law (ibid). The enforceable “shall” labor provision (“shall” being a term of requirement, unlike “strive”) – that is, the provision which can trigger trade retaliation including the reintroduction of tariffs – is highly limited. The Agreement only requires that each government “shall not fail to effectively enforce its labor laws...in a manner affecting trade between the Parties” (ibid).

This means that Jordan is free to have relatively weak labor laws. Even if they fall short of international standards, as long as they “strive” to meet those standards, they are not in violation. Moreover, if Jordan fails to meet the standards of their own laws, enforcement can only be triggered if the United States could demonstrate that trade is affected – for example, if American producers of textiles (of which there are few, concentrated mostly in higher-end products which Jordan does not export) – were negatively affected. In fact, it wasn’t expected that these provisions would ever require the threat of retaliation. A published letter from the then-United States Trade Representative to the Jordanian Ambassador before the treaty was implemented stated that the governments in the treaty “would not expect or intend to apply the Agreement’s dispute settlement enforcement procedures in a way that results in blocking trade” (US Trade Representative, 2001a).

Whether the Jordanian government is turning a blind eye to the issues of migrant labor is a matter of debate and perspective. The Jordan's relatively weak labor laws (International Labor Organization) have certainly not helped matters. After the American NGO National Labor Committee (NLC) reported widespread violations (Gillespie, 2006), the Jordanian Ministry of Labor (MoL) investigated claims and issued a subsequent report (Jordan Ministry of Labor, 2006). The report acknowledges some issues, and the government states that in the prior year the Ministry issued 3000 penalties to factories operating in QIZ. At the same time, the report lays out claims from the NLC compared to findings from Jordanian Ministry of Labor Inspections in a table, and at times, the MoL findings seem, at best, hopelessly naïve, at times defensive, and at others, absurd. Where the NLC found that "work is for seven days a week," the MoL concluded that it was "not always and not all workers do overtime work" (ibid). Where the NLC found that workers at one factory required permission to go to the toilet, the MoL responded that there was "nothing to prove this." The MoL also noted that allegations of trafficking of workers "could not be verified." Where the NLC found that one factory paid less than the minimal wage, the MoL concluded that company records showed that minimum wage laws were being followed. The report itself did acknowledge weaknesses in the MoL's ability to monitor and enforce laws and regulations, but it also detailed a number of concrete changes that the country had undertaken, including taking "lessons learned" from International Labor Organization work in Cambodia to improve conditions in its garment industry.

Reports from years after the initial claims by the NLC did detail a number of improvements in working conditions (Williams, 2015), and since 2008, the Jordanian government has mandated that all garment exporters participate with an independent group known as Better Work Jordan,

a partnership of the International Labor Organization and the World Bank's International Finance Corporation. The group carries out independent inspections on an annual basis and creates recommendation for improvements (Williams 2015; Textile World Asia). In 2013, Jordan's General Trade Union of Workers in Textile Garment and Clothing Industries reached an agreement with industry associations recognizing the union and affirming a number of workers' rights (IndustriAll Global Union). Since that time, pay and working conditions have improved significantly (Williams, 2015).

Conclusion

It is possible to conclude that the United States-Jordan Free Trade Agreement has been a runaway success, if measured by Jordanian exports to the United States, which exploded from a level of tens of millions of dollars a year to nearly \$2 billion in 2015. It is also possible to conclude that the Agreement has been a failure, since it has not achieved many of the expected gains. The country, for example, has maintained a large current account deficit, has had persistently high unemployment, and per-capita GDP in Jordan has not changed significantly since the Agreement was signed. Over 90% of Jordan's exports to the United States are in textiles and apparel, and 75% of the workers in those industries are imported migrant labor. Hence, the expected growth of an indigenous middle class through an open trade regime has not come to fruition.

It may be most accurate to describe the Agreement as a qualified success. Jordan's economy has faced a number of external shocks in the time since the USJFTA was ratified, from significant

and prolonged instability on the part of its neighbors (including, in particular, Iraq and Syria, which have been major trading partners of Jordan), to a global financial crisis. The limits of this success are significant, however. An initial hope was for the Agreement to support new middle-class jobs and employment, for the country to “move up the food chain” of production. To date, exports to the US have been limited to almost solely to textiles, where wages are low, most workers are not Jordanian, and the relatively small share of Jordanian workers is limited to women before they marry – that is to say, not the kind of employment that supports a prosperous middle class.

The Jordanian textile industry is also, in some ways, in a precarious position in that it depends not only on privileged access to the American market, but also that other textile-exporting countries with lower labor costs (including many of the home countries for the migrant laborers in Jordan’s garment factories) do not have this access. The industry operates on narrow margins: When Jordanian textiles faced tariffs of roughly 10% upon entry to the United States, there was virtually no Jordanian textile industry. That is the margin of Jordan’s advantage in the sector. This is demonstrated, in part, by the fact that Jordan exports almost no textiles to the European Union, despite the free trade agreement between Jordan and the EU (European Communities-Jordan Euro-Mediterranean Agreement). Unlike the United States, the EU has signed a great number of trade deals, and has other trade programs that encourage development. Significant amongst these is the EU’s “Everything But Arms” program, which removes almost all tariffs from least developed countries (except on armaments) (European Commission). European imports of textiles largely come from countries – including major textile exporters Bangladesh and Cambodia (BACI International Trade Database) – because they have

lower labor costs than Jordan and receive the same favored tariff treatment. (It should be noted that Jordan now has access to this program while the country hosts Syrian refugees, so long as the industries workforce is composed of at least 15-25% Syrian refugees (European Commission, 2017).) This gives Jordan limited headroom to improve worker wages or conditions, and make garment-industry jobs more attractive to Jordanian workers. It also highlights the limited profit potential for the industry, where margins are low and competition is global.

The United States Jordan Free Trade Agreement has been in force for just over a decade and a half. During that time, the Jordanian textile industry has exploded, but other exports remain elusive. For the Agreement to be considered a long-term success, the country must begin attracting investment in other export sectors, preferably those which produce goods with a requirement for higher skilled labor, supporting jobs with higher wages that would encourage greater Jordanian participation in the country's export sector. If this can be done, then it is likely that the Agreement will have fulfilled its economic objectives; if it cannot, then it is likely that even with favored tariff status, the Agreement's long-term success will be limited.

Conclusion: The Successes and Failures of the USJFTA and the Switch Away from Free Trade

This thesis has examined the United States Jordan Free Trade Agreement, and viewed it as both an instrument of foreign policy and as an instrument of trade policy. When it was created, the hope was that the trade generated by the Agreement would have a profound effect on Jordan's economy, raising living standards, supporting Jordan's stability and enhancing democracy in Jordan. In this way, the USJFTA was meant to be part of a "peace dividend," while also serving as an example to other states in the region and around the world. The first chapter evaluated the USJFTA as an instrument of foreign policy, while the second chapter placed it in the context of shifts in American trade policy. The third chapter evaluated the economic impact of the USJFTA and the human effects of the economic changes that occurred as a result of the Agreement, with a particular focus on the labor effects. Along these dimensions, if the Agreement had to be summarized in two words, it could best be called a "qualified success." It should be noted that the USJFTA also includes provisions on intellectual property rights and electronic commerce, which have effects in Jordan but which this thesis has not evaluated.

Evaluating the Successes and Failures of the USJFTA

The Agreement has its origins in the Jordan-Israeli peace treaty signed in 1994, which made that country the second Arab nation to sign a peace treaty and normalize relations with Israel. Israel has long been considered a key US partner and ally in the Middle East, and ensuring Israel's security has been one of the core goals of American policy in the Middle East. During the Cold

War, the United States considered Jordan to be a partner in resisting Soviet influence in the Arab world, but the country's conflict with its eastern neighbor, Israel, held back Jordanian-American relations. Over time, Jordan and Israel came to recognize shared interests. Specifically, they both came to believe that the PLO represented a potential threat to their countries and governments. This was particularly true for Jordan, as more than half of Jordan's population was of Palestinian origin. Covert negotiations in the 1980s led to Jordan's abandonment of claims on the West Bank in 1989, and to a formal peace treaty between the two countries in 1994.

The United States provided incentives to encourage Jordanian recognition of Israel and a formal peace treaty, including a promise to cancel \$700m of Jordanian debt, and following the treaty the Clinton Administration sought create a more sizeable "peace dividend" for Jordan. The goals of this dividend were threefold: First, to provide a visible example to other Arab nations of the expected benefits of normalizing relations with Israel, second, to provide real benefits to the Jordanian people and nation to smooth over negative any sentiments about the treaty, and finally, to support the stability of the Jordanian nation and government, a country the US now firmly considered an ally. To accomplish the first goal, the United States recognized Jordan as a Major Non-NATO Ally (MNNA), putting it in elite company that included Australia, Japan, South Korea and Israel. To accomplish the second goal, the Clinton Administration asked Congress to amend the US-Israel Free Trade Agreement to create special "Qualified Industrial Zones" (QIZ) in Jordan. Goods manufactured in these zones, which had to include Israeli content could pass to the United States tariff-free, as if they were entering from Israel. This encouraged direct economic cooperation between Israel and Jordan, but was limited in geography and scope. To expand the economic benefits throughout Jordan, the Clinton Administration began negotiations

for a Free Trade Agreement with Jordan. Like MNNA status, the FTA offered Jordan prestige, putting it in a small group of nations. The Administration also believed that it would help the Jordanian economy grow significantly.

Free Trade Agreements fit in well with the Clinton Administration's foreign policy doctrine of Enlargement, which was heavily influenced by the Liberal paradigm of International Relations theory. As the first President elected after the end of the Cold War, the Administration felt it had to articulate a new overarching strategy for American foreign policy to replace "Containment" (of the Soviet Union). Enlargement sought to build institutions that would support peace and development, and did this by strengthening, fostering and otherwise promoting market economies and democratic development. Enlargement drew upon liberal thought that goes as far back as Deutsch (1973) and Haus (1958) which assumed that the relationship between trade and peace was mutually reinforcing. In essence, Enlargement is a merging of trade and foreign policies, and assumes that democracy (or at least pro-Western attitudes) and peace will flow from increased trade. This echoes Liberal thinkers such as Ikenberry and others who note the importance of the development of institutions outside of government to foster international stability.

A key premise of the USJFTA was that higher living standards, and stronger ties to Israel, would help to stabilize the region. By making peace "pay," there would be popular support within Jordan for normalized relations with Israel, and an incentive for others to follow suit. Enlargement was also based on the belief that neoliberal economic policies will increase living standards and help to foster a middle class, a strong civil society and, ultimately, democratic institutions. The middle

class, being rich enough to have something to lose, and yet not rich enough to stash money in a foreign bank in case of domestic turmoil, has something to gain from a better-run country, and something to lose if it is not. An empowered middle class would demand a greater say in their country's government – leading to eventual democratization. As such, the USJFTA was a bet that the “trade first” approach of Enlargement could work to create a middle class and support democratization.

The question remains, then, whether or not these various goals were achieved. The answer, as demonstrated in the previous pages, is that the USJFTA was partially successful at achieving the goals of Enlargement, though fell short in key ways. Hence, the experience of the USJFTA provides some evidence for a Liberal argument: Jordan and Israel have remained at peace, and their relationship has shown that it can bend but not break, withstanding tension and resolution. There is also an increasing element of democratic accountability within Jordan. During the Arab Spring, Jordan's government was one of only two that had the confidence to enact real constitutional reform in response to protests. Protestors took to the streets, the government did not clamp down violently, and in the end, the protests only claimed one civilian and two police lives. The regime stayed in place, the country enacted constitutional reforms that brought Islamist groups such as the Muslim Brotherhood into the political fold, and Freedom House moved Jordan from its list of “not free” countries to “partly free” as a result of those changes.

In regard to the larger economic goals, however, the USJFTA may have supported Jordan's economy to some extent, but has not led to the development of a middle class (and increased living standards) that was originally envisioned. The USJFTA did have a significant effect on

Jordan's economy. Jordan's total exports expanded drastically under the QIZ program and the USJFTA. The total value of Jordan's exports increased from \$1.5 billion USD in 1997 to just under \$9.5 billion in 2015, with \$1.9 billion that total sent to the United States. The US has gone from being the destination for less than 2% of Jordan's exports to more than 20%. The country has generally had a significant trade surplus with the United States, giving the country an important source of hard currency. Although the FTA is not the only (or even perhaps the primary) reason for Jordan's stability, it can be said to be a contributing factor. Jordan has managed to maintain its per capita GDP even as the country's population has doubled over the past 20 years. In the past three years alone, the country's population has swelled by over 1.7 million people, or more than 20%, as refugees have entered the country fleeing the civil war in Syria and the advancement of ISIS in Iraq. Foreign policy does not occur in a vacuum, and it seems likely that the USJFTA was a contributor towards Jordan's continued stability in a region that has been wrought with turmoil for a decade and a half.

Jordanian trade with the US is almost entirely in textiles and garments. It is here that Dependency theorists find evidence to support their views. Over 90% of Jordanian exports to the US since the FTA was ratified have been from the garment industry. Under the Agreement, total Jordanian garment exports have exploded, from just \$42 million in 1997 to \$1.9 billion in 2015. Over 89% of Jordan's textile and apparel exports are to the United States. This suggests that Jordan has no real advantage as a textile producer, or Jordan's export markets would be more varied; rather, Jordan's "advantage" in the industry comes from its tariff-free status. This has significant implications for the growth and development of the Jordanian economy. It means that Jordan's industry is highly dependent upon cost. American tariffs on Jordanian textiles prior

to the Agreement were roughly 10%. This 10% margin is the effective ceiling on how much it can raise prices before its apparel industry is no longer competitive with other countries after allowing for global changes in prices; limiting the ability of Jordanian producers to increase wages, improve working conditions, or otherwise support development.

An unforeseen result of this industry's development – and therefore, the USJFTA – was the importation of a large labor force, almost entirely women from South Asia, to work in the Jordanian textile industry. Roughly 75% of the jobs in the industry are held by workers from South Asia, and the industry has had a very difficult time recruiting Jordanians – total applications by Jordanian workers were less than a quarter of the total number of job openings in the industry over a two year period. With producers facing a price ceiling if they wish to remain competitive, producers are limited in what they can do to entice more Jordanians to apply; Jordanian workers already command a price premium over imported labor from South Asia, many of whom have prior experience in the textile industry.

A decade ago, there were widespread reports of physical and sexual abuse of workers alongside long hours and dire working conditions in the industry. The “enforceable” labor provisions gave little solace to garment workers in Jordan: Violations can only be addressed if they're found to affect trade between the parties – a fairly high standard of evidence. The USJFTA's labor provision was used only to the extent of generating reports on conditions in the factories by Jordan's Ministry of Labor, starting in 2006. This reinforces critics who argued that the enforceable labor provisions would probably not be used, and if they were, real appreciable change from the perspective of workers would only happen slowly, if ever. Although more

recent reports show that conditions have improved, with higher wages, better adherence to rules for overtime pay and regulations for working conditions, and significantly fewer reports of abuses, many of these improvements happened only after the 2012 and 2013 factory fire and building collapse in Bangladesh raised awareness of working conditions in the textile industry globally. In any event, these trends undercut many of the predictions offered by Neo-Liberal theorists about the effects of free trade on countries such as Jordan.

Additionally, although the Agreement has seemingly been an impetus to increased FDI into Jordan, increases in foreign investment are highly correlated with increases in textile production soon afterwards. This suggests that the investment is not ultimately causing Jordan to move up the scale of production, opening new industries that offer the chance of higher wages for higher-skilled workers, which is in line with the predictions of Dependency theory and later Marxist critiques. Given the low wages of the textile industry, and the fact that Jordanians comprise less than a quarter of the industry's workforce, it has not been a significant driver of Jordanian job growth, let alone middle class job growth, meaning that the USJFTA has not succeeded at achieving one of its core goals. Jordan's per capita GDP did rise gradually in the years after implementation, but it was rising before the Agreement was negotiated, and has plateaued since, suggesting that the USJFTA has done little to improve the quality of life for Jordanians. Real per capita GDP in Jordan today is only \$500 higher than it was in the 30 years ago.

On the whole, then, the USJFTA has achieved some, but not all, of its intended aims, and both Liberals, Dependency theorists and Realists can find evidence that fits their theories. Liberals can state that the USJFTA has been one of the factors in solidifying Jordan's relationship with

Israel (and with the United States), even if it has not led other Arab nations to follow Jordan's example. The Agreement did support Jordan's economy, making the United States a significant trading partner for the country. Jordan has remained stable, and was able to navigate the Arab Spring with almost no bloodshed and enacted constitutional reforms that marked a small step towards democratization. The USJFTA would not seem to be the causal link, however, it may have played a supporting role. Dependency, critical and Marxist theorists can point to the Jordanian textile industry for evidence of their critique of neo-liberal economic policies. Jordan has not used the USJFTA as a springboard for the development of middle class jobs, and seems "stuck" exporting low-cost textiles made by foreign workers. This foreign workforce has been subjected to workplace and physical abuse, and the USJFTA's enforceable labor provisions did little to stop, or even slow, the abuse.

Realists can point to the relatively short time horizon of the Agreement and say that there has not been enough time to determine whether the USJFTA has ultimately fostered a long and lasting peace between Jordan and Israel. They could also use the same evidence that Dependency theorists use to argue that the USJFTA has essentially "locked" Jordan in an ideal place for Israel: The USJFTA does enough to support Jordanian stability and prevent spillover violence from a potentially dangerous neighbor, but not enough to increase Jordan's relative strength to the extent that would pose a threat. Perhaps more to the point, realists of all stripes would argue that the most critical factor concerning the Israel-Jordanian relationship – and the American-Jordanian relationship – was the perception of shared interest in closer ties. Economic considerations, from this view, would be secondary.

While evaluating the USJFTA in light of regional and global events and economics of the past twenty years, the preponderance of evidence supports the Liberal institutionalist perspective, with qualifications, though with significant evidence against claims made by neoliberal economics. Jordan's stability during and after the Arab Spring and Syrian civil war, while its population has exploded, is due in part to its economic and political ties to the US and Israel. The more ambitious hopes of Enlargement have not come to pass; however, Jordan has managed to maintain (and slightly improve) its standard of living despite the population boom. Jordan has successfully developed an export industry with the United States, even though the US has FTAs with other nations at Jordan's approximate level of development. If Jordan's middle class hasn't boomed, neither have the ranks of its impoverished. There is evidence that Jordan may be "moving up the production chain" with automotive exports to Europe, but it has not been able to outcompete competitors with closer geographical proximity like Mexico, or more capital, such as South Korea, both of which have FTAs with the United States, in the American market. If a Realist views the USJFTA as an attempt to maintain Jordan in a position of limited economic opportunity, and therefore, power, to Israel (an argument which takes for granted the longer-term nature of the US-Israel alliance), then it seems a particularly short-sighted policy aim at a time when violent protests, revolutions and civil war have enveloped several of Israel's neighbors. The USJFTA did not succeed at all of the aims of Enlargement, but is in part because its form was limited by domestic American political considerations.

Free Trade Agreements and American Politics

The USJFTA is also significant insofar as it marked the beginning of a significant increase in the use of bilateral free trade agreements by the United States: Two were signed in the 1980s, one

was signed and one negotiated in the 1990s. During the 8 years of George W. Bush's administration, *eight* FTAs were signed, including DR-CAFTA, an agreement with six other countries. The Obama Administration shepherded three additional FTAs, largely negotiated in the Bush Administration, to ratification, and negotiated the Trans-Pacific Partnership (TPP), which would be by far the largest FTA the United States has negotiated.

The FTAs with Israel and Canada were largely uncontroversial, but the inclusion of Mexico, a country with much lower labor costs and environmental standards in NAFTA caused controversy. NAFTA had largely been written but was not yet finalized during the 1992 Presidential election, and became a topic of the campaign. Supporters argued that the agreement would be good for American consumers and producers, and help support the economic development of Mexico. Detractors argued that NAFTA would cost American jobs as US workers would have to compete with lower-cost Mexican labor, and would create a "giant sucking sound" as Ross Perot memorably put it, as American factory work moved "South of the border, pay a dollar an hour for labor... no environmental controls, no pollution controls and no retirement" (Bush, Clinton and Perot 1992).

Clinton, breaking new ground for Democratic presidential candidates, ultimately supported NAFTA's passage, on the condition that the US negotiate labor and environmental agreements alongside NAFTA to protect workers and the environment, thereby addressing the criticism articulated by Perot and others. Although no labor groups ultimately supported NAFTA's passage, Clinton's insistence on adding labor protections in a side agreement reduced the union's ability to mount an effective campaign against the agreement. Labor and environmental

protections were added to the main body of the USJFTA, and have since become a standard part of American-negotiated FTAs, including those negotiated during George W Bush's presidency.

Free Trade Agreements appealed to the Enlargement doctrine the Clinton Administration articulated following the election, particularly after the Administration shepherded the passage of NAFTA with labor and environmental side agreements. Business and international groups would support FTAs, as would some environmental organizations, and labor unions had not been able to effectively organize against them if they included labor and environmental provisions. Additionally, FTAs have essentially no direct fiscal cost at a time when the Republican-controlled Congress was wary of anything that might increase the deficit, and they enjoyed bipartisan support in Congress. In short, bilateral FTAs had ideological appeal under the Enlargement doctrine, and practical appeal from a political standpoint.

The inclusion of labor and environmental protections in the body of the USJFTA was Clinton's attempt to prevent the "great sucking sound" of American jobs leaving the country that Ross Perot predicted would result from NAFTA, and became the key issue as the USJFTA was negotiated in Congress. This hints at an important policy constraint the Administration faced as it crafted the Agreement. Despite the limitations and ultimate ineffectiveness of the labor provisions documented in earlier sections, they still proved controversial enough that the Bush Administration did little to support the USJFTA's ratification until after 9/11, and those invited to testify by Republican senators on the Agreement were openly opposed to the inclusion of these provisions. Even if the Jordanians could be persuaded to sign an agreement with stronger labor

and environmental protections, the debate in Congress raises doubts as to whether an agreement with stronger language would have been ratified.

The greatest successes of the Clinton Administration's Enlargement doctrine are the creation of the WTO, China's ascension to it, and the USJFTA. Of these, the USJFTA uniquely expands past trade policy to directly address the broader foreign policy and democratization objectives of Enlargement, of which the labor and environmental provisions were a key part. Strategically, the inclusion these provisions had two related goals for the Clinton Administration. The first was to provide a model for future FTAs, a "gold standard" that included labor and environmental provisions. The second was to broaden the domestic coalition in favor of FTAs and provide and reduce the number of those critical of the Agreements, both in Congress, in civic groups, and at the ballot box.

On the first measure, the Administration was successful, as subsequent FTAs included similar enforceable language. On the second, success was partial and, it turns out, temporary. In the 2016 presidential election campaign, both major party candidates opposed the trade pact, as did Democratic candidate Bernie Sanders, who continued to influence the Democratic ticket even after he had lost his party's nomination. Donald Trump and Bernie Sanders were consistently opposed to trade in general – citing the social dislocation associated with neo-liberal economic policies – and to the Transpacific Partnership (TPP) in particular. The TPP was then under negotiation by the Obama Administration, and was very much rooted in the Liberal paradigm of the Clinton enlargement policy, though also had a realist motivation. The TPP was intended, in part, to contain China's dominance by binding the neighboring Asian countries to the US (Green

and Goodman, 2015). During the 2016 election cycle, however, Hillary Clinton voiced opposition to the TPP as early as October 2015 (PBS Newshour, 2015), and sought to distance herself from the pact she helped negotiate (and publicly supported) while Secretary of State. Although the candidates offered different criticisms of specific parts of the TPP, the central criticism from all candidates was the potential negative impact on American workers (Ballotopedia, 2016). Sanders, in particular, also identified environmental concerns and worker welfare in other TPP nations as concerns (ibid). Trump tied his opposition to the TPP to his conservative populism, and used NAFTA as evidence that US workers were negatively affected by FTAs like the TPP (ibid).

The Trump Administration's withdrawal from the negotiations make it unlikely that the United States will ever ratify the TPP, and reduces the credibility of the United States in future trade negotiations. Popular opposition to FTAs comes despite agreement from economists that US citizens benefited from NAFTA (IGM Chicago, 2012), and formal economic analysis that US welfare increased slightly as a result of the deal (Caliendo and Parro, 2015). Free trade – abstractly – continues to be relatively popular amongst American voters. A majority of Americans supported free trade in a poll done in April 17, and even in October 2016, in the heat of the election, 45% of Americans voiced support (Jones 2017). Yet those opposed to free trade are more strongly opposed than those in favor, and more Americans believe that their personal finances have been hurt by free trade than those that believe they have been helped by it.

The opposition to the TPP should not be seen as a judgment of the agreement as a specific document. Although the candidates identified specific issues they had with the pact, the TPP

resonated as an issue with voters because it was a symbol of the broader project of neoliberal globalization and its effects on workers. It was a specific, identifiable target that could be successfully opposed, unlike the WTO or previous trade deals. This, when combined with the weak labor provisions in the USJFTA and later trade deals, explains why opposing the TPP resonated with voters. Although USJFTA's effects in the Jordanian textile industry were not discussed in the campaign, the experience there looks almost exactly like the specter described by Perot in 1992 and feared by many American workers ever since. Workers were brought in from another country, asked to work for pennies an hour and up to 20 hours a day. Many workers were denied overtime pay to which they were entitled, and some may have been paid less than the minimum wage, while some were subjected to physical and sexual abuse. The US government had few means of stopping or preventing these abuses, and it took years and international pressure before the Jordanian government was able to improve conditions. Instead of providing an example of how free trade deals could be beneficial without asking Americans to compete on an unfair playing field, the USJFTA instead showed how limited the protections afforded to workers actually are. That these effects were unpredicted would only add to the suspicion towards these deals.

Previous pages have argued that as a discrete matter of policy, the USJFTA has been relatively successful in achieving its aims, from achieving foreign policy goals in cementing Jordan's peace and providing a source of hard currency and stability to Jordan, to providing a model for future trade deals. If viewed as more than an individual policy, and instead, as a test case for Clinton's assumption that socially progressive and Liberal goals could be achieved through neoliberal economic means, however, the Agreement looks starkly less successful. The doctrine of

Enlargement, which found a natural manifestation in free trade agreements, was motivated by practicality as much as ideology. At a time when neoliberal economic ideals were ascendant, the Clinton Administration bet that they could be used to achieve broader social and institutional reforms. The experience of the Jordanian garment industry shows how limited the Clinton Administration was in creating labor provisions that actually protected laborers, and the more recent backlash against the TPP shows that the protections in the USJFTA and subsequent agreements have not shifted the arguments against trade deals. This casts doubt on whether the neoliberal project of trade liberalization can be successfully tamed to protect human rights and used to achieve social and political liberalization.

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