

# Economics and the Renewal of Jordan-Israel Ties

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## Brief Analysis

**W**hen King Hussein meets with President Clinton this week, most media speculation will surround provocative comments he has made reportedly urging direct dialogue between the United States and Iraq. In the tradition of "good news is no news," little attention will be focused on one of the more upbeat developments in the Middle East in recent months, the rehabilitation of Jordan-Israel relations. For exactly one year—from the leaking of a letter from King Hussein to Israeli Prime Minister Benjamin Netanyahu severely critical of the latter's policies to the heinous shooting attack on Israeli schoolgirls by a lone Jordanian soldier to the Mossad's assassination fiasco in downtown Amman—Israeli-Jordanian ties have been in a tailspin. This was an especially negative development, given Jordan's role as the Arab state that had invested most in "warm peace" with Israel. While ties are not fully repaired—and Infrastructure Minister Ariel Sharon's remark on Saturday, March 14 asserting Israel's intent to eventually seek to assassinate Amman-based Hamas leader Khalid Meshal will surely complicate this process—the two sides have gone far in recent days to restore a sense of mutual interest and practical problem-solving to a relationship in which both parties have much to gain and, if sour, much to lose.

Improving ties through economics: The most obvious sign of strained relations between the two countries has been in the security realm, with the Jordanians having suspended any intelligence cooperation in the wake of the Meshal assassination attempt. While Israel's internal commission of inquiry did not go far enough, in Jordan's view, to criticize both the logic and the implementation of this plan, the personnel changes that followed—the forced resignation of Mossad chief Danny Yatom and his replacement by Ephraim Halevy, a close interlocutor of the King for many years—did repair much of the damage. This opened the door for a new phase in another aspect of the relationship: economics.

Three recent high-level visits focused on bolstering ties through strengthening the trade relationship and planning joint projects. This includes visits to Amman by Sharon and Minister of Trade and Industry Natan Sharansky and a visit to Tel Aviv by Jordanian Crown Prince Hassan, where he and Netanyahu issued a joint statement on March 10 peppered with positive notes about relations between their two countries.

During Sharansky's Amman visit on March 9, he and his counterpart, Jordanian Minister Hani al-Mulqi, not only renewed trade agreements but also added to their commitment to double bilateral trade to more than \$40 million per year. In response to Jordan's complaint that Israel restricts trade with non-tariff barriers such as imposing unreasonable standards for entry of Jordanian goods, the two sides signed an agreement that will allow Jordanian manufacturers to have their products tested in Jordan for Israeli standards. This will eliminate the expensive and time-consuming step of sending samples to Israel for testing. Another thorny matter addressed was that of trilateral trade issues among Jordan, Israel, and the PA, with the Sharansky-Mulqi joint statement highlighting the importance of expanding trade among the three, with a meeting planned of all three Ministers of Industry and Trade. In addition, Israel agreed in principle to an expansion of the list of goods which can be traded between the PA and Jordan and between the PA and Egypt. This step may deflect criticism of Israel for preventing Palestinians from trading with the Arab world. It also serves as evidence that Israeli-Jordanian progress can, at times, have positive spillover effects on the Palestinian track.


Even more ambitious than the trade arrangements were the discussions Sharon had on March 8 with Jordanian Minister of Water and Irrigation Munther Haddadin, the official with overall responsibility for joint projects with Israel, as well as with King Hussein and Crown Prince Hassan. The joint projects on their agenda ranged from several large-scale infrastructure projects addressing transportation and energy needs to more modest proposals for joint factories and medical facilities. One large project that has received some interest from potential Israeli and American investors is a proposed railway from the Dead Sea to the Red Sea. At this point, according to the parties, several of the projects are at an advanced stage of planning with both sides keen to secure funding.

A supporting role for Washington: The United States played an important supporting role in the quiet drama of rebuilding Jordan-Israel ties by holding an official signing ceremony two weeks ago to recognize the Al Hassan Industrial Zone in Irbid, Jordan as a "Qualifying Industrial Zone" (QIZ). The QIZ agreement, first signed at the Doha conference last November, encourages joint ventures between Israel and each of its peace process partners by providing duty-free access to the U.S. market to all goods that are jointly-produced. This type of arrangement is considered such an effective tool in drawing investors to Irbid that the Israeli and Jordanian governments are jointly approaching Europe to request that they follow the U.S. lead.

Several joint Israeli-Jordanian ventures are already operating in the Irbid QIZ, with the accord precipitating a spurt of additional investor interest. The QIZ has already enabled the Century Investment Group, the primary Jordanian company involved in the Zone, to become the largest private employer in northern Jordan. Century currently employs 1,200 Jordanians who, according to chairman Omar Salah, tend to become strong supporters of peace through their working relationship with Israelis. The combination of new prosperity and inevitable people-to-people contact is unbeatable in winning workers over to the cause of peace and normalization, say Salah and his Israeli partners. The number of Jordanians employed in Irbid is expected to grow to more than 5,000 within three years. In a small economy like Jordan's, such a large concentration of workers, and their families, could constitute a significant bloc.

In some cases, those manufacturing plants that have opened in Irbid represent factories that were operating in Israel and moved to Jordan to take advantage of the lower labor and production costs. This has led to criticism by some in both countries. Jordanian opponents of the QIZ contend that it exploits Jordanian laborers; this, however, rings hollow, given Jordan's high unemployment rate (approaching 20 percent) and the relatively high wages paid to QIZ workers in comparison to the Jordanian labor market. For their part, Israeli critics argue that the QIZ exacerbates the high unemployment in Israel's development towns—in Ofakim, where several plants have closed down or moved, unemployment is nearly double the national rate. However, as Sharansky has noted, the larger phenomenon is the shift in Israel's economy from low-tech (e.g., textiles) to high-tech industries. If the plants didn't move to Jordan, he said, they would either move farther away, to Eastern Europe and Asia, or they would close down completely.

Potential for the United States to make a difference: U.S. efforts at using economics to foster the peace process have at times been criticized as ineffective and contrived. Indeed, with the legacy of the Doha economic summit in mind, it is clear that grand international events and a few "showcase" joint ventures cannot themselves rescue a failing peace process. However, in the case of Jordan and Israel, there is ample evidence that economics can play a vital role in cementing peace and in building a pro-peace constituency among populations. Progress between Israel and Jordan also shows that U.S. economic initiatives can make a real difference when the timing and the targeting are right. In this case, the parties themselves have established both the targets (joint projects) and the time (now). So far, this is one U.S. economic initiative designed to bolster peace that seems to be working.

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