Boundaries of Protectionism: Ethnic Politics and Elite Bargains in the Neo-Liberal Era

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Ethnic Politics and Trade Reform in the Developing World

- **Trade Reform in the Developing World:** Permanently Partial, Uneven, Inefficient (Hellman 1998; Van de Walle 2001)
Ethnic Politics and Trade Reform in the Developing World

- Ethnic ties between policymakers and import-competing industrialists *obstruct* trade reform (Bates 1994; Chaudhry 1999; Soludo et al 2004)
Ethnic Politics and Trade Reform in the Developing World

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  - **Ethnic Politics**
    - Favoritism, Clientelism, Shared Networks
Ethnic Politics and Trade Reform in the Developing World

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  - Ethnic Politics
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  - International Political Economy
Ethnic Politics and Trade Reform in the Developing World

- Ethnic ties between policymakers and import-competing industrialists obstruct trade reform (Bates 1994; Chaudhry 1999; Soludo et al 2004)
  - Ethnic Politics
    - Favoritism, Clientelism, Shared Networks
  - International Political Economy
    - Executive Insulation
Ethnic Politics and Trade Reform in the Developing World

- Ethnic ties between policymakers and import-competing industrialists facilitate trade reform
Ethnic Politics and Trade Reform in the Developing World

- Coethnic Industrialist ⇒ Favoritist Benefits for Liberalizing Policies
Ethnic Politics and Trade Reform in the Developing World

- Coethnic Industrialist $\Rightarrow$ Favoritist Benefits for Liberalizing Policies
  - Favoritism: Illicit and Preferential Enforcement of State Policies (Loewe et al 2008)
    - Regulatory and fiscal forbearance, uncompetitive procurement, insider access and information
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- Non-Coethnic Industrialist $\Rightarrow$ Protectionist Status Quo
<table>
<thead>
<tr>
<th></th>
<th>Ethnic Ties</th>
<th>Ethnic Cleavage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade Reform</td>
<td>More</td>
<td>Less</td>
</tr>
<tr>
<td>Rents</td>
<td>Favoritist</td>
<td>Programmatic</td>
</tr>
</tbody>
</table>
Outline of Presentation
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- Theory
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▶ Evidence from Jordan
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  ▶ Ministerial ethnic quota system and unpredictable ministerial turnover
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    - Temporary Tariff Cases
  - Mechanism: Elite interviews (50+ industrialists, civil servants, former trade ministers)
- Conclusion
Theory

Figure 1: Actors and Objectives

- Policymaker
  Objective: Co-optation
- Industrialist A
- Industrialist B
Figure 2: Pre-Reform Era

- Policymaker Objective: Cooptation
  - Protection
    - Industrialist A
  - Protection
    - Industrialist B
Figure 3: Neo-Liberal Era

Policymaker
Objective:
Co-optation
Trade Reform

Industrialist A

Industrialist B
Theory

Figure 4: Neo-Liberal Era

- Policymaker Objective: Cooptation
  - Trade Reform

- Favoritist Benefits
- Liberalizing Policies

- Industrialist A
- Industrialist B
Figure 5: Neo-Liberal Era

- Policymaker Objective: Cooptation
  - Trade Reform
  - Protection
  - Favorist Benefits
  - Liberalizing Policies

- Industrialist A
- Industrialist B
Evidence from Jordan

Figure 6: Jordan

*Israeli occupied with current status subject to the Israeli-Palestinian Interim Agreement - permanent status to be determined through further negotiation.
Evidence from Jordan: Economic Policymaking

- King-appointed cabinet legislates and implements economic policy.
Evidence from Jordan: Economic Policymaking

- King-appointed cabinet legislates and implements economic policy.
- Informal Ministerial Ethnic Quota System
  - Palestinians ~ 30 % of cabinet seats
Evidence from Jordan: Economic Policymaking

- King-appointed cabinet legislates and implements economic policy.
- Informal Ministerial Ethnic Quota System
  - Palestinians ~ 30% of cabinet seats
- Unpredictable Ministerial Turnover
Evidence from Jordan

Figure 7: Monthly Ratio of New Cabinet Members (2000 - 2016)

Source: Government of Jordan
Evidence from Jordan

Figure 8: Monthly Ratio of New Cabinet Members (2000 - 2016)

Palestinian (Green) and East Bank (Red) Trade Ministers
Evidence from Jordan: Hypothesis

- Trade Ministers are more likely to protect *non-coethnics’* import-competing industries:
Evidence from Jordan: Hypothesis

- Trade Ministers are more likely to protect *non-coethnics’* import-competing industries:
  - Free Trade Agreement (FTA) Exemptions
  - Temporary Tariff Cases
Import-Competing Industries (ICI) dataset

- Registration records for all firms producing or importing products “at risk” of international competition or that applied for temporary tariff relief from 2000 to 2016.
- Products (55): Aluminum, Ceramics, Freezers, Pasta, Shoes, Steel.
- Firms: 486 manufacturing firms, 536 importing firms.
  - Minimum of USD 14,000 in registered capital
Import-Competing Industries (ICI) dataset

Figure 9: Firm Registration Record

الشركاء

<p>|</p>
<table>
<thead>
<tr>
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<th>الحصة</th>
<th>الاسم الشريك</th>
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<td>2,625,000</td>
<td>صبحي محمد خير صبحي جبري</td>
</tr>
<tr>
<td>9542015402</td>
<td>2,375,000</td>
<td>عبير احسان توفيق عقيل</td>
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أعضاء هيئة المديرين/مدير عام

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<th>التواريخ</th>
<th>اسم العضو</th>
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اعلانات الجريدة الرسمية

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<th>رقم الحركة</th>
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<td>تعديل رأس المال الشركة</td>
<td>147</td>
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<td>تعديل حرص الشركة</td>
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</tr>
<tr>
<td>تعديل رأس المال الشركة</td>
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<td>تعديل الغيارات</td>
<td>4425</td>
</tr>
</tbody>
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لمعرفة التعديلات القانونية
Figure 10: Dictionary of Jordanian and Palestinian Clans (Ameeri 2014)
Import-Competing Industries (ICI) dataset

- All of a firm’s registered capital is attributed to ethnic group of largest investor.
Import-Competing Industries (ICI) dataset

- All of a firm’s registered capital is attributed to ethnic group of largest investor.
  - 117 unique Jordanian family names.
Import-Competing Industries (ICI) dataset

- *All* of a firm’s registered capital is attributed to ethnic group of largest investor.
  - 117 unique Jordanian family names.
  - 29 percent of family names are “Mixed”, 10 percent “Unknown.”
Import-Competing Industries (ICI) dataset

- All of a firm’s registered capital is attributed to ethnic group of largest investor.
  - 117 unique Jordanian family names.
  - 29 percent of family names are “Mixed”, 10 percent “Unknown.”
- Aggregate firm data to calculate ethnic make-up of ICI products’ manufacturing and importing capital per year.
Trade Policy I: Free Trade Agreement (FTA) Exemptions

Figure 11: US - Jordan FTA, 2000
Trade Policy I: Model Specifications

- **DV: Exemption from a Free Trade Agreement (FTA)** (Binary)
Trade Policy I: Model Specifications

- **DV: Exemption from a Free Trade Agreement (FTA)** (Binary)
- **IV: Non-Coethnic Manufacturing Capital:**
Trade Policy I: Model Specifications

- **DV: Exemption from a Free Trade Agreement (FTA)**
  (Binary)

- **IV: Non-Coethnic Manufacturing Capital:**
  - Capital (logged) owned by Jordanians who are *not* of the same ethnic group as the sitting trade minister.
Trade Policy I: Model Specifications

- **DV:** Exemption from a Free Trade Agreement (FTA) (Binary)
- **IV:** Non-Coethnic Manufacturing Capital:
  - Capital (logged) owned by Jordanians who are *not* of the same ethnic group as the sitting trade minister.
  - Manufacturing Capital, Importing Capital
Trade Policy I: Non-Coethnic Manufacturing Capital

Figure 12: Aluminium Profiles (HS: 7604)

Monthly Share of Non-Coethnic Capital (2000 - 2016)
Trade Policy I: Non-Coethnic Manufacturing Capital

Figure 13: Aluminium Profiles (HS: 7604)

Month of US and Turkey FTAs (Red)
Trade Policy I: Hypothesis 1

- ICI products with more Non-Coethnic Manufacturing Capital are more likely to be exempt from an FTA.
## Table 1: Non-Coethnic Capital and FTA Exemptions

<table>
<thead>
<tr>
<th>FTA Exemption (1 = Yes)</th>
<th>(Palestinian)</th>
<th>(Palestinian + Mixed)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-Coethnic</td>
<td>0.602*</td>
<td>0.757**</td>
</tr>
<tr>
<td>Manufacturing Capital</td>
<td>(0.301)</td>
<td>(0.268)</td>
</tr>
<tr>
<td>(Logged)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Observations</td>
<td>171</td>
<td>171</td>
</tr>
<tr>
<td>Akaike Inf. Crit.</td>
<td>115.954</td>
<td>97.007</td>
</tr>
</tbody>
</table>

*Note:*  
*p < 0.05; **p < 0.01

Source: MITS
Trade Policy II: Temporary Tariff Cases

Figure 15: Timeline of Temporary Tariff Cases
Trade Policy II: Temporary Tariff Cases

Figure 16: Temporary Tariff Case: Shoes

Sources: MITS, WTO
Trade Policy II: Temporary Tariff Cases

Figure 17: Temporary Tariff Case: Shoes

East Bank (Red) and Palestinian (Green) Trade Ministers
Figure 18: Jordanian Temporary Tariff Cases: 2000 - 2016

East Bank (Red) and Palestinian (Green) Trade Ministers
Trade Policy II: Hypothesis 2

- ICI products with *more* Non-Coethnic Manufacturing Capital are *more* likely to advance from one state of a temporary tariff case to another.
Trade Policy II: Model Specifications

► DV: Hazard of a product advancing from one state of the temporary tariff case to another.
Trade Policy II: Model Specifications

- **DV**: Hazard of a product advancing from one state of the temporary tariff case to another.
- **IV**: Non-Coethnic Manufacturing Capital (Logged).
Trade Policy II: Model Specifications

- **DV:** Hazard of a product advancing from one state of the temporary tariff case to another.
- **IV:** Non-Coethnic Manufacturing Capital (Logged).
- Model: Products leave dataset upon temporary tariff protection (Multi-State Modeling)
Trade Policy II: Model Specifications

- **DV:** Hazard of a product advancing from one state of the temporary tariff case to another.
- **IV:** Non-Coethnic Manufacturing Capital (Logged).
- **Model:** Products leave dataset upon temporary tariff protection (Multi-State Modeling)
- **Population:**
  - 5,700 Product-Month Observations
  - 111 “events” of products moving up or down states of temporary tariff cases
Trade Policy II: Hypothesis 2

- ICI products with more Non-Coethnic Manufacturing Capital are more likely to advance from one state of a temporary tariff case to another.
ICI products with *more* **Non-Coethnic Manufacturing Capital** are *more* likely to advance from one state of a temporary tariff case to another.

**Finding:** 10 % increase in an ICI product’s Non-Coethnic Manufacturing Capital correlates with a 10.01 % increase in the hazard of advancing up a state (p: < 0.10).
Mean duration estimates from 500 bootstrapped samples. Controls at their means: Total Manufacturing Capital, Total Importing Capital, Minister’s Tenure (Months). Total Foreign Manufacturing Capital set at zero. All Logged.
Mechanism: Coethnic Favoritism for Liberalizing Policies

- Elite Interviews (50+, 7 Trade Ministers)
- Trade Ministers target coethnics with Favoritist Benefits
- Government Contracts
- Regulatory and Fiscal Forbearance
- Preferential Access and Information
- Trade Ministers are pressured to liberalize
- Coethnic Favoritist Benefits for Liberalizing Policies

"Industrialists do not challenge a trade minister when they are under his umbrella." - Trade Lawyer 3, Oct. 2017
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Conclusion
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▶ International Political Economy
Conclusion

- **International Political Economy**
  - Identity Politics
Conclusion

- International Political Economy
  - Identity Politics
  - Side-Payments (Naoi 2015)
Thank You

Questions and comments are welcome at smonroe@princeton.edu
Appendix I

- Theory
  - Scope Conditions
  - Favoritist Benefits vs. Protectionist Policies
  - Regime Preferences
  - Industrialists' Preferences
  - Ethnic Turnover
  - Importers
  - Policy Implications

- Trade Policy I: FTA Exemptions
  - FTA: Odds Ratio
  - Model Specification
  - Firm Information

- Trade Policy II: Temporary Tariffs
  - Population of Events
  - Transition Probabilities
  - Hazard Ratios
  - Hazard Ratios - Across States
Appendix II

- Trade Reform in Ethnically Diverse Countries
  - Cross National Analysis
  - Cross National Mean Averages
  - Panel Table
  - Panel Analysis
  - Cross-Sectional Analysis

- Other: Jordan
  - Alternative Explanation: Conflict
  - Alternative Explanation: Coethnic Domination
  - Capital Mobility
  - CCD Product Classification
  - Exogeneity Assumption
  - East Bank Manufacturing Capital
  - Palestinian Manufacturing Capital
  - Informal Ethnic Quota System in Cabinet
  - Trade Ministers’ Background
  - Interview List

- Research Agenda
  - Research Agenda
Theory: Scope Conditions

- Countries with politically salient ethnic cleavages
  - Ethnicity: *Inherited* group categorizations (Chandra 2007)
- Regimes are liberalizing
- Regimes *depend* on economic elites
  - Need: Employment, Taxes, Investment, Credit
  - Fear: Capital Mobility, Defection, Inactivity
- Weak institutions

Back to Appendix
<table>
<thead>
<tr>
<th></th>
<th>Favoritist Benefits</th>
<th>Protectionist Policies</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Instruments</strong></td>
<td>Forbearance, insider information, uncompetitive, procurement</td>
<td>Tariffs, technical barriers to trade, tax exemptions, subsidies</td>
</tr>
<tr>
<td><strong>Characteristics</strong></td>
<td>Informal, preferential, opaque</td>
<td>Formal, non-preferential, visible</td>
</tr>
<tr>
<td><strong>Recipient</strong></td>
<td>Firms</td>
<td>Industries</td>
</tr>
<tr>
<td><strong>Main Beneficiary</strong></td>
<td>Coethnic</td>
<td>Non-Coethnic</td>
</tr>
</tbody>
</table>
Trade Policy and Ethnic Turnover

Figure 20: Neo-Liberal Era (1)
Trade Policy and Ethnic Turnover

Figure 21: Neo-Liberal Era (2)
Regime: Ranked Preferences

- 1) Trade Reform + Cooptation
- 2) Trade Reform + Defection
- 2) Protection + Cooptation
- 3) Protection + Defection

Back to [Appendix](#).
Industrialists: Ranked Preferences

- 1) Trade Reform + Favoritist Benefits
- 1) Protection + Protectionist Policies
- 2) Trade Reform + No Favoritist Benefits

Back to [Appendix](#).
## Exogeneity Assumption: Empirical

### Table 2: Ministerial Tenure and Trade Decisions

<table>
<thead>
<tr>
<th></th>
<th>FTA</th>
<th>Temp</th>
<th>Tariff Decision</th>
<th>Trade Decisions</th>
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<tbody>
<tr>
<td>Ministerial Tenure</td>
<td>0.04</td>
<td>-0.01</td>
<td>-0.01</td>
<td>-0.01</td>
</tr>
<tr>
<td>(Months)</td>
<td>(0.05)</td>
<td>(0.01)</td>
<td></td>
<td></td>
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<tr>
<td>East Banker</td>
<td>0.62</td>
<td>0.91**</td>
<td></td>
<td>0.91**</td>
</tr>
<tr>
<td></td>
<td>(0.99)</td>
<td>(0.32)</td>
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<td>(0.32)</td>
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<tr>
<td>Observations</td>
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<td>60.33</td>
<td>280</td>
<td></td>
<td>299</td>
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</tbody>
</table>

Models: Rare Events Logit, Zelig Package (Column 1); Poisson (Column 2 and 3). Robust Standard Errors for Poisson Models. Back to [Appendix](#).
Implication: Importers

Policymaker
- Protectionist Policies and Favoritist Benefits (Tariff Evasion)

Importer A

Importer B

Liberalizing Policies

Back to Appendix
Table 3: Trade Policy I: Summary Statistics of ICI Dataset

<table>
<thead>
<tr>
<th></th>
<th>Palestinian</th>
<th>East Banker</th>
<th>Foreign</th>
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<tbody>
<tr>
<td>Mean Registered Capital (000 JD)</td>
<td>407</td>
<td>2054</td>
<td>3067</td>
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<tr>
<td>Mean Date of Establishment</td>
<td>1998</td>
<td>1997</td>
<td>2002</td>
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<tr>
<td>Number of Firms (Percent of Firms)</td>
<td>297 (41)</td>
<td>74 (10)</td>
<td>64 (9)</td>
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<tr>
<td>Percent in Manufacturing</td>
<td>45</td>
<td>56</td>
<td>73</td>
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</tbody>
</table>

Back to Appendix
Trade Policy I: Data and Model Specifications

- DV: Likelihood of a product’s *exemption* from a Free Trade Agreement (FTA) (22 percent of ICI products)
- IV: Non-Coethnic Capital:
  - Manufacturing capital (logged) owned by Jordanian industrialists who are *not* of the same ethnic group as the sitting trade minister
- Controls: Foreign Manufacturing Capital, Foreign Importing Capital, Total Manufacturing Capital, Total Importing Capital, Industry Fixed Effects
- Standard Errors: Clustered at the ICI product level.

Back to [Appendix](#)
Trade Policy I: Findings

**Table 4:** Non-Coethnic Capital and FTA Exemptions (Odds Ratios)

<table>
<thead>
<tr>
<th></th>
<th>(Palestinian)</th>
<th>(Palestinian + Mixed)</th>
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<tbody>
<tr>
<td>Non-Coethnic</td>
<td>1.826⁺</td>
<td>2.133*</td>
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<tr>
<td>Manufacturing Capital</td>
<td>(0.648)</td>
<td>(0.575)</td>
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<td>(Logged)</td>
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<tr>
<td>Observations</td>
<td>171</td>
<td>171</td>
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<tr>
<td>Akaike Inf. Crit.</td>
<td>115.954</td>
<td>97.007</td>
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*Note:*  
⁺⁺p<0.10  *p<0.05; **p<0.01

## Trade Policy II: Events

### Table 5: Temporary Tariff Case Events

<table>
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<th>Investigation</th>
<th>Tariff</th>
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<td>0</td>
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<td>Investigation</td>
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<td>243</td>
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Trade Policy II: Transition Probabilities

Table 6: Transition Probabilities

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<th>Investigation</th>
<th>Temporary Tariff</th>
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<td>Baseline</td>
<td>0.99</td>
<td>0.01</td>
<td>0</td>
<td>0</td>
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<td>Petition</td>
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<td>0.73</td>
<td>0.23</td>
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<tr>
<td>Investigation</td>
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<td>0</td>
<td>0.89</td>
<td>0.07</td>
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Back to Appendix
Trade Policy II: Temporary Tariff Cases

Table 7: Hazard Ratios for Temporary Tariff Case Advancement

<table>
<thead>
<tr>
<th>Explanatory Variable</th>
<th>Lower</th>
<th>Median</th>
<th>Upper</th>
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<tbody>
<tr>
<td>Non-Coethnic Capital</td>
<td>1.00</td>
<td>1.01</td>
<td>1.02</td>
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<tr>
<td>Non-Coethnic Capital 2</td>
<td>1.02</td>
<td>1.03</td>
<td>1.04</td>
</tr>
<tr>
<td>Coethnic Capital</td>
<td>0.96</td>
<td>0.99</td>
<td>1.03</td>
</tr>
</tbody>
</table>

Distribution of Hazard Ratios calculated from 500 bootstrapped samples. Controls: Total Manufacturing Capital, Total Importing Capital, Total Foreign Manufacturing Capital, Minister’s Tenure (Months). All logged.

Back to Temporary Tariff Finding or Appendix
## Trade Policy II: Temporary Tariff Cases

### Table 8: Hazard Ratios for Temporary Tariff Case Advancement Across States (Non-Coethnic Manufacturing Capital)

<table>
<thead>
<tr>
<th>States</th>
<th>Lower</th>
<th>Median</th>
<th>Upper</th>
</tr>
</thead>
<tbody>
<tr>
<td>Baseline - Petition</td>
<td>1.01</td>
<td>1.03</td>
<td>1.05</td>
</tr>
<tr>
<td>Petition - Investigation</td>
<td>0.90</td>
<td>0.93</td>
<td>0.96</td>
</tr>
<tr>
<td>Investigation - Temporary Tariff</td>
<td>1.07</td>
<td>1.09</td>
<td>1.13</td>
</tr>
</tbody>
</table>

Distribution of Hazard Ratios calculated from 500 bootstrapped samples. Controls: Total Manufacturing Capital, Total Importing Capital, Total Foreign Manufacturing Capital, Minister’s Tenure (Months). All logged.

Back to [Temporary Tariff Finding](#) or [Appendix](#)
Evidence from Jordan: Interview List

- Trade Ministers: 7
- Industrialists: 13
- Representatives of Business Associations: 14
- Trade Lawyers: 3
- Public Sector Employees: 12
- Civil Society Organizations and Other: 10

Back to Fieldwork Slide or Appendix
Evidence from Jordan

Figure 22: Mean Share of East Bank Manufacturing Capital

Source ICI Database
Back to Appendix
Figure 23: Mean Share of Palestinian Manufacturing Capital

Source ICI Database
Back to Appendix
Evidence from Jordan

Figure 24: Companies Control Department Product Classification

<table>
<thead>
<tr>
<th>Product Classification</th>
<th>Code</th>
</tr>
</thead>
<tbody>
<tr>
<td>Producing a variety-show programs</td>
<td>[941420]</td>
</tr>
<tr>
<td>Producing religious programs</td>
<td>[941419]</td>
</tr>
<tr>
<td>Software production</td>
<td>[831923]</td>
</tr>
<tr>
<td>Aluminum Profiles Production</td>
<td>[381338]</td>
</tr>
<tr>
<td>Petroleum Refining Residue Production (Asphalt)</td>
<td>[353008]</td>
</tr>
</tbody>
</table>
Evidence from Jordan

Figure 25: Monthly Ratio of Palestinian Cabinet Members

Source: WikiLeaks Back to Appendix
Table 9: Evidence from Jordan: Ministers’ background information (Means)

<table>
<thead>
<tr>
<th></th>
<th>East Banker</th>
<th>Palestinian</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number</td>
<td>10</td>
<td>5</td>
</tr>
<tr>
<td>Age</td>
<td>51.3</td>
<td>54</td>
</tr>
<tr>
<td>Education*</td>
<td>2.3</td>
<td>2.2</td>
</tr>
<tr>
<td>Private Sector Experience*</td>
<td>0.67</td>
<td>0.60</td>
</tr>
</tbody>
</table>

Note: Education* (1 = BA, 2 = Masters, 3 = PhD), Private Sector* = 1 if Minister has private sector experience prior to position, Age = when becoming minister. Back to Appendix
Evidence from Jordan

Figure 26: “Jordanians’ Investment in Abu Dhabi Stock Market Surpasses Local Investment”

Source: Al Ghad, January 2016

Back to Appendix or Alternative Explanation
Alternative Explanations

▶ Fear of Conflict

“People hear names of individuals who are accused of corruption, yet nothing happens to them. They see Jordanians with lots of money choosing not to invest in Jordan and taking their money outside, and they notice the large tax evasion. This is demoralizing.” – Former Minister of Culture Sabri Rbeihat, (Arab News, Nov. 2017).
Alternative Explanations

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Alternative Explanations

- Coethnic Domination (Kasara 2007)

- "The government cannot exist without us." - Head of Aluminium Tube Company, Jan. 2017

- "Businessmen used to have a "Palestinian" mentality where they didn’t want to confront the government about anything. This mentality is crumbling. Businessmen are becoming much more assertive." - Head of Business Association, Jul. 2015

- Dubai Option and Capital Mobility

Back to Appendix
Alternative Explanations

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  - “The government cannot exist without us.” - Head of Aluminium Tube Company, Jan. 2017
Alternative Explanations

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Back to Appendix